

AGENDA

AUDIT COMMITTEE MEETING

Date: Wednesday, 14 September 2016

Time: 7.00 pm

Venue: Council Chamber, Swale House, East Street, Sittingbourne, Kent, ME10 3HT

Membership:

Councillors Andy Booth, Roger Clark, Adrian Crowther, Mick Galvin, Nicholas Hampshire (Chairman), Harrison, Nigel Kay (Vice-Chairman), Samuel Koffie-Williams and Peter Marchington.

Quorum = 3

Pages

1. Emergency Evacuation Procedure

The Chairman will advise the meeting of the evacuation procedures to follow in the event of an emergency. This is particularly important for visitors and members of the public who will be unfamiliar with the building and procedures.

The Chairman will inform the meeting whether there is a planned evacuation drill due to take place, what the alarm sounds like (i.e. ringing bells), where the closest emergency exit route is, and where the second closest emergency exit route is, in the event that the closest exit or route is blocked.

The Chairman will inform the meeting that:

(a) in the event of the alarm sounding, everybody must leave the building via the nearest safe available exit and gather at the Assembly points at the far side of the Car Park. Nobody must leave the assembly point until everybody can be accounted for and nobody must return to the building until the Chairman has informed them that it is safe to do so; and

(b) the lifts must not be used in the event of an evacuation.

Any officers present at the meeting will aid with the evacuation.

It is important that the Chairman is informed of any person attending who is disabled or unable to use the stairs, so that suitable arrangements may be made in the event of an emergency.

2. Apologies for Absence and Confirmation of Substitutes

3. Declarations of Interest

Councillors should not act or take decisions in order to gain financial or other material benefits for themselves or their spouse, civil partner or person with whom they are living with as a spouse or civil partner. They must declare and resolve any interests and relationships.

The Chairman will ask Members if they have any interests to declare in respect of items on this agenda, under the following headings:

(a) Disclosable Pecuniary Interests (DPI) under the Localism Act 2011. The nature as well as the existence of any such interest must be declared. After declaring a DPI, the Member must leave the meeting and not take part in the discussion or vote. This applies even if there is provision for public speaking.

(b) Disclosable Non Pecuniary (DNPI) under the Code of Conduct adopted by the Council in May 2012. The nature as well as the existence of any such interest must be declared. After declaring a DNPI interest, the Member may stay, speak and vote on the matter.

(c) Where it is possible that a fair-minded and informed observer, having considered the facts would conclude that there was a real possibility that a Member might be predetermined or biased the Member should declare their predetermination or bias and then leave the room while that item is considered.

Advice to Members: If any Councillor has any doubt about the existence or nature of any DPI or DNPI which he/she may have in any item on this agenda, he/she should seek advice from the Director of Corporate Services as Monitoring Officer, the Head of Legal or from other Solicitors in Legal Services as early as possible, and in advance of the Meeting.

4. Minutes

To approve the Minutes of the Meeting held on 8 June 2016 (Minute Nos. 717 - 726) as a correct record.

Part A Report for Recommendation to Council

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| 5. Annual Treasury Management Report 2015/16 | 1 - 12 |
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Part B Reports for Decision by the Audit Committee

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Issued on Monday, 5 September 2016

The reports included in Part I of this agenda can be made available in **alternative formats**. For further information about this service, or to arrange for special facilities to be provided at the meeting, **please contact DEMOCRATIC SERVICES on 01795 417330**. To find out more about the work of the Audit Committee, please visit www.swale.gov.uk

**Corporate Services Director, Swale Borough Council,
Swale House, East Street, Sittingbourne, Kent, ME10 3HT**

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Audit Committee	
Meeting Date	14 September 2016
Report Title	Annual Treasury Management Report 2015/16
Cabinet Member	Cllr Duncan Dewar-Whalley, Cabinet Member for Finance
SMT Lead	Nick Vickers, Head of Finance
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Olga Cole, Management Accountant
Key Decision	No
Classification	Open
Forward Plan	Reference number

Recommendations	1. To approve the Treasury Management stewardship report for 2015/16.
	2. To approve the prudential and treasury management indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The Council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.
- 1.2 Treasury management is defined as "the management of the local Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
- 1.3 Overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.
- 1.4 This report:
- is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
 - details the implications of treasury decisions and transactions;
 - gives details of the outturn position on treasury management transactions in 2015/16; and

- confirms compliance with Treasury limits and Prudential Indicators.

1.5 This report will be submitted to Council on 19 October 2016.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2015 £000's	Debt Maturing £000's	New Borrowing £000's	Balance on 31/3/2016 £000's
Capital Funding Requirement	5,106	0	0	4,770
Short Term Borrowing	0	0	0	0
Long Term Borrowing	0	0	0	0
TOTAL EXTERNAL DEBT	0	0	0	0
Other Long Term Liabilities (cost of leases for equipment)	753	0	0	550
TOTAL EXTERNAL DEBT	753	0	0	550

2.2 The Council undertook no borrowing in the year but full Council did agree in March 2016 that the Council could borrow externally up to £30m to fund regeneration activity. Business cases when developed will be reported to Cabinet for decision.

2.3 Currently all borrowing is internally financed.

Investment Activity

2.4 The Council held average cash daily balances of £36m during the year - this is an increase of 29% on the previous year. These represented working cash balances, capital receipts and the Council's reserves.

2.5 The Communities and Local Government's (CLG's) Guidance on Investments, revised during 2009/10, reiterated security and liquidity as the primary objectives of a prudent investment policy. Although the Guidance became operative on 1 April 2010, its principal recommendations run parallel to the credit risk management requirements in the revised Treasury Management Code. In the revised Guidance, Specified Investments are those made with a body or scheme of "high credit quality". Both the Guidance and the revised Treasury Management Code emphasise that counterparty credit criteria should not rely on credit ratings alone but should include a wider range of indicators. The revised Code nonetheless requires that ratings assigned by all three rating agencies – Fitch, Moody's and Standard & Poor's – be taken into account and the lowest rating be used.

2.6 The criteria applied by the Head of Finance for the approval of a counter party are:

- Credit rating - a minimum long-term of A-;
- Credit default swaps;
- Share price;
- Reputational issues;
- Exposure to other parts of the same banking group; and
- Country exposure.

2.7 The investments permissible by the 2015/16 Treasury Strategy were:

Investment Instruments – (in sterling)	Limits and Maturity dates
Government backed deposits <ul style="list-style-type: none"> • The UK government • Gilt Edged Securities 	<ul style="list-style-type: none"> • Unlimited amount and maturity up to 364 days • Unlimited amount and maturity up to 364 days
Money Market Funds and Collective Investment Schemes	£1.5m limit for AAA rated funds as defined by Fitch, Moody's and Standard and Poor's (funds are held on call).
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits.	£3m limit per counterparty for minimum A-rated institutions as defined by Fitch, and/or equivalent ratings by Moody's and Standard & Poor's. Maximum period 364 days.
Close Brothers	£1m limit
Leeds Building Society	£1m limit
Small UK Building Societies	£250k each or max £1m in aggregate
Major Overseas banks unsecured deposits (Handelsbanken, other banks to be determined with Arlingclose)	£1m limit per bank
CCLA LAMIT Fund	£1.5m in aggregate
Supranational Bonds	£6m in aggregate
Certificate of Deposits	£3m limit per counterparty
Corporate bond funds	£3m in aggregate

2.8 The maximum duration for deposits is 12 months. The Head of Finance in consultation with the Cabinet Member for Finance may consider longer duration. Bonds can be purchased with a maximum duration of 5 years.

2.9 The application of two European Union directives into UK legislation placed the burden of rescuing failing EU banks disproportionately onto unsecured institutional investors which include local authorities. During the year, all three

credit ratings agencies reviewed their ratings to reflect the loss of government support for most financial institutions and the potential for loss given default as a result of new bail-in regimes in many countries. Despite reductions in government support many institutions saw upgrades due to an improvement in their underlying strength and an assessment that the level of loss given default is low.

- 2.10 In August duration limits were increased for some UK and European banks, and building societies based on advice from Arlingclose. Those for Close Brothers, Coventry BS, Nationwide BS and Santander UK were increased to 6 months from 100 days and Bank of Scotland, HSBC Bank, Lloyds Bank and Svenska Handelsbanken increased to 13 months from 6 months. The limit for Barclays was unchanged while RBS / NatWest remained suspended from the list as their ratings continue to be below the Council's agreed threshold.
- 2.11 In December the Bank of England released the results of its latest stress tests on the seven largest UK banks and building societies which showed that the RBS and Standard Chartered Bank were the weakest performers. However, the regulator did not require either bank to submit revised capital plans, since both firms had already improved their ratios over the year.
- 2.12 The first quarter of 2016 was characterised by financial market volatility and a weakening outlook for global economic growth. In March 2016 the ratings of Standard Chartered Bank were downgraded due to concerns around the profitability and quality of the bank's assets. Taking account of advice from Arlingclose, the bank was suspended from the Council's counterparty list.
- 2.13 The Council's reserves have increased significantly in recent years due primarily to underspends arising from higher fees and charges income and savings on major contracts, and a surplus on business rates. With Revenue Support Grant disappearing completely from 2020 the Council is in a transition stage to being self-financing. Suitable use of reserves is of fundamental importance in supporting this process and allowing the Council to invest in assets which will give long-term revenue streams which are far higher than the returns likely in the foreseeable future from bank and other deposits.
- 2.14 The deposits for the year are summarised below:

Investments	Balance on 31/3/15 £'000	Investments Made £'000	Maturities £'000	Balance on 31/03/16 £'000	Average Rate %	Average Life (days)
Short Term Investments	22,300	216,147	(213,082)	25,365	0.65	58
Long Term Investments	1,502	0	(2)	1,500	4.77	Undated
TOTAL INVESTMENTS	23,802	216,147	(213,084)	26,865		
Increase/ (Decrease) in Investments				3,063		

The £1.5m long-term investment shown in the table above is the Council's investment in the CCLA Property Fund.

- 2.15 **Liquidity:** In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of call accounts.

- 2.16 **Yield:** The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate was maintained at 0.5% through the year. Short-term money market rates remained at very low levels.
- 2.17 The Council's budgeted investment income for 2015/16 was £85,000 and the actual income received was £234,000. Of this additional return of £149,000 £77,337 is attributable to a higher level of balances and £71,663 is due to the investment in the CCLA Property Fund the income return on which was 4.77% in the year.

Compliance with Prudential Indicators

- 2.18 The Council has complied with its Prudential Indicators for 2015/16 which were set as part of the Treasury Management Strategy agreed by Council in February 2015.
- 2.19 In Appendix I the outturn position for the year against each Prudential Indicator is set out.

Treasury Advisers

- 2.20 Arlingclose has been the Council's treasury advisers since May 2009. Following a tendering process, Arlingclose were reappointed in 2015. Officers of the Council meet with them regularly and high quality and timely information is received from them.

3. Proposal

- 3.1 Members are asked to approve the report.

4. Alternative Proposals

- 4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

- 5.1 Arlingclose have been consulted.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	The Council's Treasury Strategy is agreed annually as part of the budget process.
Legal and Statutory	Need to comply with CLG guidance on treasury management.

Issue	Implications
Crime and Disorder	Not relevant to this report
Sustainability	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2015/16

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term net debt will only be for a capital purpose, the local authority should ensure that the net debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Head of Finance reports that the authority had no difficulty meeting this requirement in 2015/16, nor is there any difficulties envisaged for future years. This view takes into account the proposals in the approved budget.

Gross Debt and the Capital Financing Requirement	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Gross CFR	4,770	4,374	18,000
Less: Other Long Term Liabilities	(550)	(382)	(181)
Borrowing CFR	4,220	3,992	17,819
Less: Existing Profile of Borrowing	0	0	0
Cumulative Maximum External Borrowing Requirement.	4,220	3,992	17,819

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. The estimate for 2017/18 is likely to increase in line with the CFR and further details will be provided at the February Cabinet.

Capital Expenditure	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total	2,309	2,739	50

Capital expenditure will be financed as follows:

Capital Financing	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Capital receipts	127	605	35
Grants	1,436	2,104	0
Revenue contributions	746	30	15
Total Financing	2,309	2,739	50

Treasury Management and Prudential Indicators for 2015/16

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
Total	0.85	1.51	1.58

5. Incremental Impact of Capital Investment Decision

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact on Council Tax is the difference between the total revenue budget requirement of the current approved capital programme and the revenue budget requirement from the capital programme proposed.

Incremental Impact of Capital Investment Decisions	2015/16 Actual £	2016/17 Estimate £	2017/18 Estimate £
Increase/Decrease in Band D Council tax	0.09	(0.04)	0.00

6. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

Capital Financing Requirement	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Total CFR	4,770	4,374	18,000

7. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit. The long-term liabilities relate to finance lease arrangements for the provision of leisure management equipment and embedded leases representing the value of equipment for the exclusive use for the Council by its grounds maintenance contractors.

Treasury Management and Prudential Indicators for 2015/16

Actual External Debt as at 31/03/2016	£'000
Borrowing	0
Other Long-term Liabilities	550
Total	550

8. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

At the Council meeting on 16 March 2016, Members approved a change to the budget framework to allow for funding to be provided up a maximum borrowing of £30m (minute 607/03/2016).

Authorised Limit for External Debt	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	5,000	35,000	35,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	7,000	37,000	37,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary for External Debt	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Borrowing	6,000	30,000	30,000
Other Long-term Liabilities	774	382	181
Total	6,774	30,382	30,181

The Head of Finance confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2015/16.

9. Adoption of the CIPFA Treasury Management Code

Treasury Management and Prudential Indicators for 2015/16

This indicator demonstrates that the Council has adopted the principles of best practise.

The Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* on 22 February 2012.

10. Interest Rate Exposures:

This indicator is set to control the Council's exposure to interest rate risk. The Council calculates these limits on net principal outstanding sums (i.e., fixed rate debt net of fixed rate investments).

Upper Limit	2015/16 Estimate %	2015/16 Actual %	2016/17 Estimate %	2017/18 Estimate %
Interest on fixed rate borrowing	100	0	100	100
Interest on fixed rate investments	-100	-52	-100	-100
Upper Limit for Fixed Interest Rate Exposure	0	-52	0	0
Interest on variable rate borrowing	100	0	100	100
Interest on variable rate investments	-100	-48	-100	-100
Upper Limit for Variable Interest Rate Exposure	0	-48	0	0

As the Council has no borrowing, these calculations have resulted in a negative figure.

11. Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity Structure of Borrowing	Existing level at 31/03/16 %	Lower Limit for 2016/17 %	Upper Limit for 2016/17 %
Under 12 months	0	0	100
12 months and within 24 months	0	0	100
24 months and within 5 years	0	0	100
5 years and within 10 years	0	0	100
10 years and above	0	0	100

The Council does not have any external borrowing for capital purposes, and did not need to borrow for cash flow purposes during 2015/16.

Treasury Management and Prudential Indicators for 2015/16

12. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent and its sovereign (minimum AA+ or equivalent for non-UK sovereigns):
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

13. Upper Limit for Total Principal Sums Invested for Periods Longer than 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	2015/16 £'000	2016/17 £'000	2017/18 £'000
Upper Limit Estimate	9,000	10,000	10,000
Actual	1,500	-	-

14. Investment Benchmarking

Average Actual Return on investments 2015/16	Original Estimate Return on Investments 2015/16	Average Bank Rate 2015/16	Average 7 day LIBID Rate 2015/16
0.65%	0.27%	0.50%	0.36%

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Audit Committee	
Meeting Date	14 September 2016
Report Title	Annual Financial Report 2015/2016 and Audit Findings Report
Cabinet Member	Cabinet Member for Finance & Performance: Cllr Duncan Dewar-Whalley
SMT Lead	Nick Vickers, Head of Finance
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Phil Wilson, Chief Accountant

Recommendations	<p>Members are asked to :</p> <ol style="list-style-type: none"> 1. note the external auditor's Audit Findings Report (Appendix I); 2. approve the letter of representation (Appendix II) on behalf of the Council; 3. approve the Statement of Accounts for the year ended 31 March 2016 (Appendix III).
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1. Purpose of Report and Executive Summary

- 1.1 This report seeks the Audit Committee's approval of the Council's financial statements for 2015/16 and includes the external auditor's Audit Findings Report for their consideration.

2. Background

Audit Findings Report

- 2.1 Grant Thornton UK LLP has been the Council's external auditors since 1 September 2012. Their audit of the financial statements began on 4 July 2016.
- 2.2 The Audit Findings Report highlights the key matters arising from the audit of the Council's financial statements for the year ended 31 March 2016. It is also used to report the audit findings to management and those charged with governance. Grant Thornton are required to report whether the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared. They are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure value for money.
- 2.3 The Audit Findings Report is attached as appendix I. Grant Thornton will present this report to the Committee on 14 September.

2014/15 Accounts Issue

- 2.4 The Audit Findings Report for the 2014/15 Accounts included the following recommendation: "Review the treatment of amounts relating to council tax support within the calculation of the bad debt provision for council tax arrears." The Council's response was to review our procedures for the calculation of this item for the 2015/16 accounts.
- 2.5 In response, the whole approach taken to calculate the bad debt provision for council tax was revised for the 2015/16 accounts. The calculation is now based on the debt being analysed by age and their recovery stage (e.g. bailiffs, attachment to earnings, etc), with a different assumption for bad debt being applied to each one. This has resulted in a more straightforward calculation following clearly identified assumptions on bad debt. The resulting bad debt provision for council tax can be seen as note 51 in the 2015/16 Accounts and the approach was reviewed and approved by Grant Thornton during their audit of the accounts.

Financial Statements 2015/16

- 2.6 The financial statements for 2015/16 are attached as appendix III. The Head of Finance has signed the accounts to certify that in his view they present a true and fair view of the financial position of the Council.
- 2.7 Under the 2015 Accounts and Audit Regulations, the Council has to have its accounts agreed by the Committee by 30 September.

3. Proposal

- 3.1 The financial statements for the year ended 31 March 2016 are attached as Appendix III. The draft accounts were sent to members of the Committee on 1 July 2016.
- 3.2 The Audit Findings Report does not identify any adjusted or unadjusted misstatements. Only minor changes and narrative amendments have been made to the draft accounts issued earlier.
- 3.3 The Head of Finance and Chief Accountant would like to express their thanks to Grant Thornton for their efforts in completing the required audit work in time for reporting to this Committee. As in the past, the Head of Finance and Chief Accountant will work with the external auditors to review the accounts and to continue to maintain and improve them in the future.

4. Consultation Undertaken or Proposed

- 4.1 Consultation has taken place with Grant Thornton throughout this process.

5. Implications

Issue	Implications
Corporate Plan	Good financial management is key to achieving our Corporate Plan priority of being “A council to be proud of”
Financial, Resource and Property	The External Auditor’s opinion is that the Authority’s accounting statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and its income and expenditure for the year then ended.
Legal and Statutory	The production of the financial statements is a legal requirement under the 2015 Accounts and Audit regulations.
Crime and Disorder	No direct issues
Sustainability	No direct issues
Health & Wellbeing	No direct issues
Risk Management and Health and Safety	No direct issues
Equality and Diversity	No direct issues

6. Appendices

- 6.1 The following documents are to be published with this report and form part of the report:
 - 6.1.1 Appendix I: Audit Findings Report
 - 6.1.2 Appendix II: Letter of Representation
 - 6.1.3 Appendix III: Annual Financial Report 2015/16

7. Background Papers

- 7.1 Detailed working papers are held in the Finance Department.

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The Audit Findings for Swale Borough Council

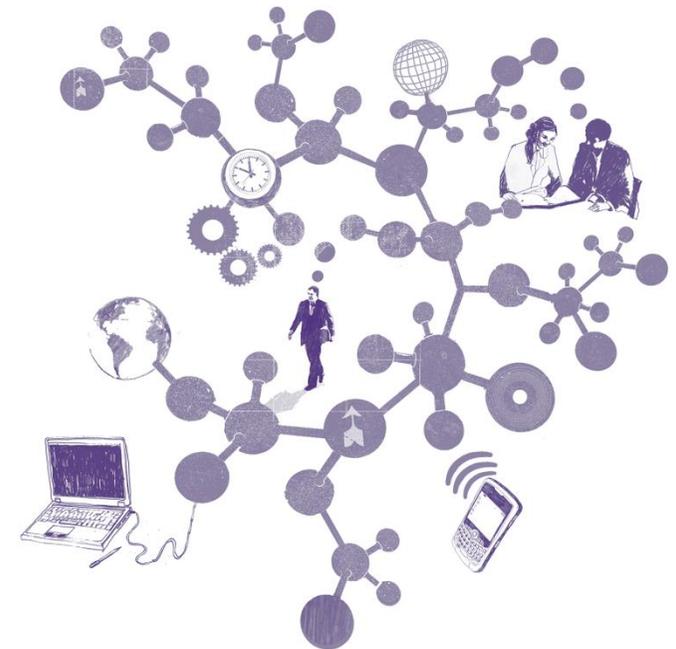
Year ended 31 March 2016

September 2016

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14 September 2016

Dear Nicholas

Audit Findings for Swale Borough Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Swale Borough Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Iain Murray
Engagement lead

Chartered Accountants

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Swale Borough Council ('the Council') and the preparation of your financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, your financial statements give a true and fair view of your the financial position and income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting .

We are also required to consider other information published together with the audited financial statements and conclude whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves as to whether you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements under the Code and the Act. We are required to provide a conclusion as to whether in all significant respects you have put in place proper arrangements to secure value for money through economic, efficient and effective use of resources for the relevant period.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated June 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the final management letter of representation
- review of the final version of the financial statements and the Annual Governance Statement
- updating our post balance sheet events review to the date of signing our audit opinion
- work under the Whole of Government Accounts framework.
- final quality assurance procedures.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Your financial statements have again been produced to a very high standard. We have not identified any adjustments to the primary financial statements and only identified a small number of adjustments to disclosure notes, all of which have been amended by management.

Further details of our findings are set out in section 2 of this report.

Management have again been proactive in reviewing the presentation of the financial statements under the "decluttering" agenda and continue to improve the presentation of the financial statements. You continue to make progress in preparing for the acceleration in the national accounts timetable from 2017/18, when draft financial statements will need to be produced by 31 May. This year an early draft of the accounts was again produced for audit comment, and following a review of closedown processes there was evidence that the accounts were substantially complete by the end of May. The working papers to support the accounts also continued to be of a very high standard.

Other financial statement responsibilities

As well as an opinion on the financial statements we are required to give an opinion on whether other information published with the audited financial statements is consistent with the financial statements.

We have concluded that the other information published together with the financial statements in the Annual Governance Statement and the Annual Financial Report is consistent with the audited financial statements.

We are required to report to you if in our opinion the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOAFCE guidance or is misleading or inconsistent with the information of which we are aware from our audit. We have nothing to report in this respect.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where as part of our testing we identify any control weaknesses we report these to you.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, you had proper arrangements in place to secure economy, efficiency and effectiveness in your use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We are required to report to you where we apply the following additional powers and duties for local government auditors under the Act:

- issue of a public interest report where we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We have not identified any issues requiring us to apply our statutory powers and duties under the Act.

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

To date we have not received any questions or objections in respect of the 2015/16 financial statements.

...

Grant certification

In addition to our responsibilities under the Code we are required to certify your Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We will complete our work on this claim ahead of the certification deadline of 30 November 2016. We will report the outcomes to the Audit Committee in our separate 2016/17 Certification Report.

The way forward

Matters arising from the financial statements audit and our review of your arrangements for securing economy, efficiency and effectiveness in your use of resources have been discussed with officers.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

In our audit plan we reported that we had determined overall materiality to be £1,718,000 (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £85,000. This remains the same as reported in our audit plan.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 26	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions. 	<p>Our audit work, including our review of journal controls and testing of journal entries, has not identified any evidence of management override of controls.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 27</p>	<p>Employee remuneration and benefit obligations and expenses understated</p>	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess whether those controls are designed effectively • Substantive testing of payroll information for a sample of employees to supporting documentation • Review of yearend reconciliations to ensure completeness of information in the accounts • Trend analysis to assess completeness of payroll information 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Valuation of pension fund net liability</p>	<ul style="list-style-type: none"> • Identification and walkthrough of the Council's controls to ensure that the pension fund net liability is not materially misstated • Review of the competence, expertise and objectivity of the actuary performing the pension fund valuation • Review of the basis for the valuation and assessing the reasonableness of the actuarial assumptions made • Review of the consistency of disclosures in the financial statements with the actuarial report. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of property, plant and equipment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 28</p>	<p>Revaluation measurements not correct</p>	<ul style="list-style-type: none"> • Identification and walkthrough of system controls • Review of management's processes and assumptions for the calculation of the estimate, including review of the work performed by management experts • Review of the competence, expertise and objectivity of management's expert • Testing to ensure information on revaluations is correctly input to the Council's asset register • Evaluation of management's processes to ensure the carrying value of assets not revalued during the year is not materially different from current value at the balance sheet date. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period</p>	<ul style="list-style-type: none"> • Documentation of our understanding of processes and key controls over the transaction cycle • Walkthrough of the key controls to assess whether those controls are designed effectively • Substantive testing of creditor balances to supporting documentation • Testing of new year payments to ensure expenditure had been posted to the correct accounting period 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Significant matters discussed with management

	Significant matter	Commentary
1.	In 2015/16 the Council reclassified surplus assets with a net book value of £4,450,00 to other asset categories.	You have exercised judgement in deciding on asset classification taking in to account the circumstances surrounding the current and planned use of individual assets. We discussed your approach to reclassification with officers. We concluded that officers had performed a systematic review and adopted a coherent approach to the reclassification of surplus assets as operational assets during the year. We concluded the approach taken was reasonable and there was no evidence that the accounts were materially misstated as a result of this reclassification.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue recognition policies are set out at Note 1 to the accounts, "Accounting Policies – General Principles" 	<ul style="list-style-type: none"> Revenue recognition policies are adequately disclosed in the financial statements. In our audit we did not identify any instances of inappropriate revenue recognition. 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> pension fund valuations PPE revaluations impairments provisions 	<ul style="list-style-type: none"> You set out your policies in Note 1 to the financial statements. We reviewed these policies and concluded they were reasonable. Like most local authorities you adopt a cyclical approach to revaluing assets.. We considered your processes for estimating the carrying value of those assets not subject to external revaluation in 2014/15. We concluded that the estimate included in the financial statements is not materially misstated. 	
Going concern	<p>Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed management's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the financial statements.</p>	
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have been made aware of investigations and prosecutions during the year. We have not been made aware of any other incidents in the period. No other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> Our work has not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> We have requested a standard letter of representation from you.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We use third party confirmations to support our review of cash and investment balances at 31 March 2016. Our testing has not identified any issues requiring further work.
6.	Disclosures	<ul style="list-style-type: none"> Issues requiring changes to amounts above the level at which we are required to report are reported at "Misclassifications and disclosure changes". We also agreed a number of other minor changes to the amounts and narrative at disclosure notes .

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Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report by exception • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with information of which we are aware. • Where we apply additional powers and duties for local government auditors under the Act. <p>We have nothing to report in these respects.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Detailed work is only required where certain values in the financial statements exceed thresholds specified by the National Audit Office. No detailed work is required for 2015/16.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses.

We have no matters to report to you.

Adjusted and unadjusted misstatements

There are no audit adjustments above the level we are required to report to those charged with governance, other than for the issues noted at "Misclassification and disclosure changes" later in this report.

We did not identify any misstatements during the audit above the level we are required to report which management has decided not to adjust.

Misclassifications and disclosure changes

We agreed a number of minor changes and narrative amendments to improve the presentation in the accounts. Officers have agreed to make the amendments in the final set of financial statements. There are no disclosure changes for amounts above our triviality level.

Section 3: Value for Money

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that you have put in place proper arrangements for securing economy, efficiency and effectiveness in your use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether you have put proper arrangements in place.

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In carrying out this work we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies a single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated June 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our draft report is at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>You are facing further significant reductions in government funding in future years. You will need an effective financial planning framework to manage the impact of these changes.</p>	<p>We have updated our understanding of your medium term financial planning framework and your planned approach to addressing future reductions in central government funding</p>	<p>You have maintained a three year Medium Term Financial Plan (MTFP) which has been regularly updated and aligned with the annual budget-setting process. For 2016/17 you identified the annual savings required by the MTFP, building these into base budgets.</p> <p>You have a history of sound financial management. You achieved a gross revenue underspend on services of £1,958,000 in 2015/16, and current reporting indicates an underspend against revenue budgets again in 2016/17. This pattern of underspends against budget, which is consistent with previous years, indicates that the overall assumptions within the MTFP remain prudent.</p> <p>You continue to face financial pressures associated with reductions in government funding. In February 2016 the MTFP identified a funding gap of £966,000 in 2017/18, with a further gap of £2,711,000 in 2018/19. You have now produced a 10 year MTFP, with updated assumptions for council tax and business rate income, to support submission of a four year efficiency plan to DCLG. This updated MTFP indicates there is a reduced funding gap over the longer term, but requires you to achieve further service efficiency savings.</p> <p>You are taking a pro-active approach to address these pressures, with action to deliver efficiencies and increase your focus on income generation as part of a wide-ranging transformation agenda. Initiatives under this strategy include the creation of an internal Transformation Unit, work to redesign services provided through the Mid Kent Improvement Partnership, and proposals for a joint venture with a private sector partner to help maximise income from the sale or development of your assets. Given uncertainty over the level of future funding from New Homes Bonus (NHB), in 2016/17 you have also substantially reduced the extent to which NHB is used to support base budgets.</p> <p>You continue to have a strong focus on supporting wider change and regeneration within the Borough. Delivering these strategic objectives whilst also addressing future financial pressures will continue to require a robust medium term financial planning framework.</p> <p>We concluded that the risk we identified was sufficiently mitigated and that you have proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

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Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit, subject to completion of our work on grant claim certification. There were no fees for the provision of non audit services

Fees

	Proposed fee £	Final fee £
Council audit	60,739	60,739
Grant certification (indicative)	20,710	TBC
Total audit fees (excluding VAT)	81,449	TBC

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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The Council audit fee for the year is the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The grant certification fee for the year is the indicative scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Section 5: Communication of audit matters

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Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

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Appendix A: Draft Audit opinion

We anticipate we will provide the Council with an unmodified audit report

DRAFT INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWALE BOROUGH COUNCIL

We have audited the financial statements of Swale Borough Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Head of Finance's Responsibilities, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors..

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance ; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial **information in the Annual Governance Statement and the Annual Financial Report to identify**

material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the the Annual Governance Statement and the Annual Financial Report is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

(Signature to be inserted)
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London
NW1 2EP

DRAFT



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Please ask for Mr Nick Vickers
Direct 01795 417267
email nickvickers@swale.gov.uk
Our Ref
Your Ref
Date September 2016

Dear Sir or Madam,

Swale Borough Council

Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of Swale Borough Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the adjusted misstatements, and misclassification and disclosure changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
 - a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.

- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xx We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Annual Financial Report

- xxv The disclosures within the Annual Financial Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 14 September 2016.

Yours faithfully,

Signed on behalf of the Council

Nick Vickers B.Sc (Econ), CPFA
Head of Finance
Date: September 2016

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Who We Are

Swale is located on Kent County's north coast between Medway, Maidstone and Canterbury, around 45 miles from London, but set in rolling Kentish countryside, and less than 30 miles from the Channel Tunnel. With an area of 140 square miles and a population of 140,800, Swale includes the towns of Sittingbourne and Faversham, the Isle of Sheppey, and an extensive rural hinterland.

We provide a wide range of services, such as waste collection, recycling, street cleansing, parking, planning, leisure, homelessness support, recreation, housing benefit and environmental health.

Our Purpose

Our overarching purpose is making Swale a better place.

Our 2016/17 Corporate Priorities

A Borough to be Proud Of

This priority theme focuses on the Council's aspirations for Swale as a physical place.

A Community to be Proud Of

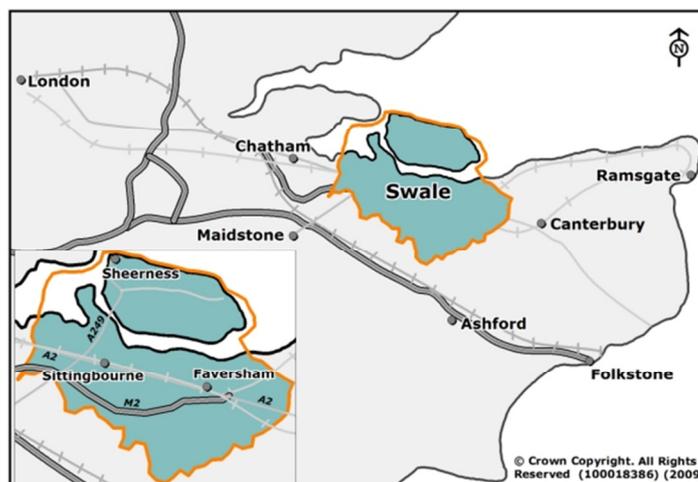
This priority theme focuses on the Council's aspirations for the people of Swale.

A Council to be Proud Of

This priority theme focuses on the Council's need to develop its own organisational capacity and culture as it continually re-assesses how it can best achieve the objectives of the other two priority themes.

Our Values – Swale FIRST

- Fairness - being objective to balance the needs of all those in our community
- Integrity - being open, honest and taking responsibility
- Respect - embracing and valuing the diversity of others
- Service - delivering high quality, cost effective public service
- Trust - delivering on our promises to each other, customers and our partners



Financial Overview

Reserves

Up by £2.8m compared to 2014/15

£17.9m**Business rates collection rate**

Up by 1.5% compared to 2014/15

98.8%

Council Tax

No change since 2010/11

Band D £159.93**Number of staff**

Up by 1.4 compared to 2014/15

277.4 (full time equivalents)

Council tax collection rate

Up by 0.2% compared to 2014/15

97.5%**Ratio of current assets to liabilities**

Up 0.3 compared to 2014/15

2.3

Foreword by Councillor Duncan Dewar-Whalley

The purpose of this Annual Report is to demonstrate our stewardship of the Council's finances for the financial year 2015/16. The Report provides a useful and important source of financial information for residents, council members and all other interested parties. I am pleased to report that the Council's finances remain sound as a result of our strong financial management. This must be seen against the background of the continuation of the Government's deficit reduction programme with the consequent decrease in the funds which the Council receives from Central Government. The challenge to the Council to continue to provide high quality services cannot be underestimated, and there are tough spending choices to make in this difficult financial climate. However, the Council remains ambitious and optimistic for the future, and will continue to make improvements whilst protecting services and protecting jobs.

I would like to thank the Head of Finance and his team whose hard work have helped to deliver this Annual Report.



Councillor Duncan Dewar-Whalley
Cabinet Member for Finance and Performance
30 June 2016

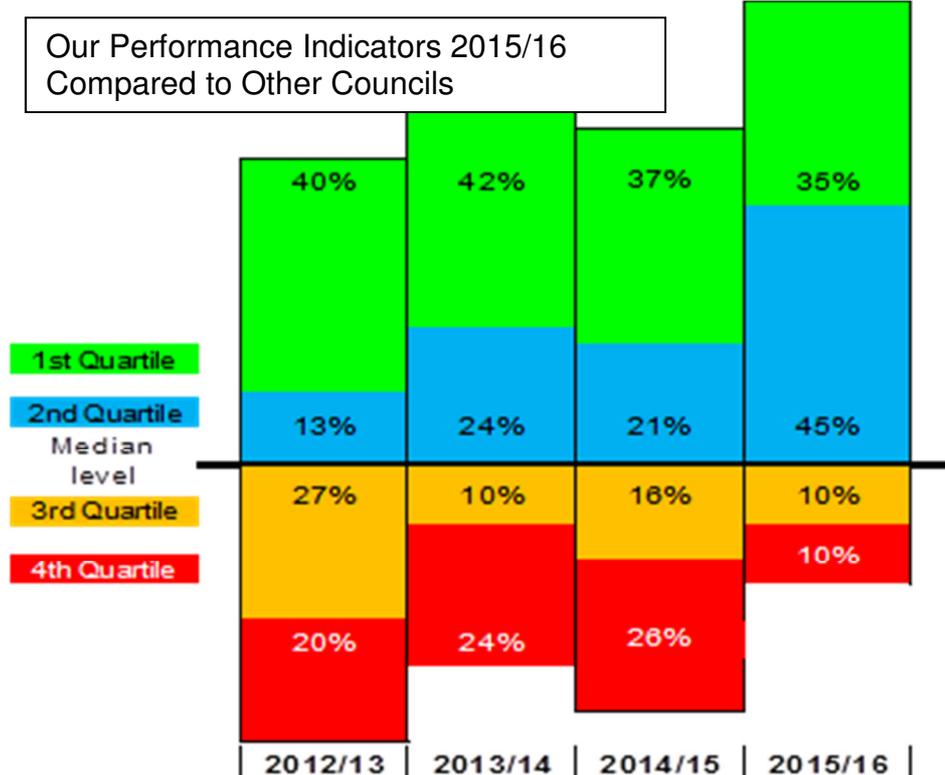
Reviewing Our Performance

The Conservatives retained control of the Council following the elections in May 2015, so that the new corporate plan adopted by the Council in February 2015 remained in operation for the whole of 2015/16 (see <http://www.swale.gov.uk/corporate-plan-2015-2018/>). The new plan represents an evolution from previous plans, containing 15 medium-term strategic objectives grouped under three headline ‘priority themes’ covering the Council’s aspirations for the borough as a physical place, for the local community, and for its own organisational culture and development. The Council’s Annual Report will set out in detail progress against the Corporate Plan.

The Council continues to monitor its performance against a range of key performance indicators and, where possible, to benchmark our performance with that of other local authorities. In addition to numerous indicators in use within specialist teams, Cabinet, Scrutiny and the management team monitor a set of 40 ‘corporate’

indicators on a regular basis. This set is balanced across services to ensure that taken as a whole it is representative of Council performance across the board. When minor changes are excluded, performance improved on 43 percent of these indicators in 2015/16 compared to 2014/15, while it deteriorated on 26 percent of indicators.

Approximately half of these ‘corporate’ performance indicators are based on externally defined measures such as best value indicators or national indicators (NI), and are thus comparable with other councils. When compared to the latest available national datasets, 80 percent of



Swale’s comparable indicators performed above the median in 2015/16, including 35 percent of indicators in the best quartile. The remaining 20 percent was split equally between indicators in the third and worst quartiles. This is Swale’s best ever result in terms of national benchmarking, as illustrated in the figure above.

The Council publishes a summary performance report each month on our website at <http://www.swale.gov.uk/managing-performance/>

Our Sustainability and Environmental Impact

The Council is committed to tackling the causes and effects of climate change and in January 2013 became one of the first lower-tier authorities in the country to sign up to Climate Local, the revised version of the Nottingham Declaration. In this, we have set out our targets and commitments for tackling climate change, including a year-on-year reduction in carbon emissions of 2.6 percent across the borough and measures to monitor and improve water use, biodiversity, flood protection and the green economy. To date we remain on track to meet these targets. Each year the Council also produces a greenhouse gas report, which continues to show progress in reducing carbon emissions from our own estate. The Kent Environment Strategy has recently been revised and has been adopted by Swale and other Kent districts. We work closely with Kent County Council (KCC) and other districts on climate-related issues, and will continue to do so to deliver the objectives of the new strategy.

Reviewing Our Performance

The new household waste contract in operation across the Mid-Kent area is already leading to higher levels of recycling and reduced emissions from collection lorries. In 2015/16 Swale's performance against NI 192 (proportion of household waste recycled, composted or reused) increased by almost one-fifth over the previous year, and delivered over 40 percent, putting Swale above the national median on this measure for the first time. The Council's procurement strategy requires that sustainability issues are considered in all contracts, and where feasible we ask developers to incorporate renewable energy and other sustainable measures into new developments.

Our People

The Council recognises that its success is built on the knowledge, expertise and commitment of its workforce and we therefore place great emphasis on the management and development of this valuable resource.

There are well-established performance and development processes for all staff, which ensures that all team members have a development plan. The Council has developed our values to clearly describe how we do things – FIRST (Fairness, Integrity, Respect, Service and Trust) and all employees should be aware how we expect them to work so that they behave in ways that are consistent with these values. The Council has an engagement plan to ensure that staff know where they fit in and the importance of their role in delivering the priorities of the Council. An important part of the engagement plan is the approach to communications which are multi-channel and regular, including a monthly Team Talk for manager led team briefs, three all staff briefings annually and weekly, monthly and quarterly management meetings. These processes are supplemented by a voluntary staff group with direct access to the Strategic Management Team (SMT).

The support to staff and the approach to employee engagement was recognised in February 2016 with the award of the Investors in People (IIP) Gold Standard which has only been achieved by twenty-five organisations in Kent. The award recognises the investment in our staff in the approach to leadership, development opportunities, reward and recognition, wellbeing and engagement. This has been further developed through the updated Workforce Strategy which reflects the revised Council priorities and the possible opportunities and challenges in the future; the strategy has three themes, Culture of the organisation, Recruitment and retention and Developing for the future.

SMT reviews the workforce information on a quarterly basis, which includes recruitment, retention, headcount, turnover, equalities profile, and sickness information. This attention to workforce data has prompted several strands of action, for example, the age profile of the Council meant that action was taken to broaden the number of apprenticeships and therefore open up access to jobs in an age group that was under-represented. The Council employed six apprentices which equates to 2.2 % of the full time equivalent employees and they are in a variety of departments across the Council.

The monitoring of workforce information by SMT also ensures a focus on sickness absence; in 2015 we were awarded an 'excellence' rating in the Kent Healthy Business Awards for our approach to managing sickness. During 2015/16 the amount of time lost to sickness was an average of 5.42 days per employee which is significantly better than the average for the local government sector of 8.3 days (1,505 working days were lost to sickness absence, which equates to 2.3% of available working days). The Council takes a supportive approach to sickness management making use of an Occupational Health service and employee assistance programme with clear attendance expectations and monitoring. One other outcome of our strategy was demonstrated by the very positive results of the Health and Safety Executive's (HSE) Stress at Work survey which showed that employee stress is well managed. The proactive approach to sickness management is enhanced by an active programme of well-being initiatives to encourage staff to take responsibility for their own health.

How We Manage Risk

The Council continues to recognise the value in having robust and effective risk management processes. The Council seeks to identify and manage the risks that could impact on the delivery of its objectives. During 2015/16 the Council sought the opportunity to update and implement improved risk management arrangements across the Council. Work is still underway, but will result in creation of a comprehensive risk register which will collate in one place and on a common structure the risks facing the Council as it pursues its

Reviewing Our Performance

objectives as set out in the Corporate Plan. The register will include risks at the corporate, operational and project level. The Council has identified and updated the corporate level risks; the next stage is for these to be assessed in terms of likelihood and impact. The following risk themes have been identified:

- regeneration projects (including Sittingbourne Town Centre);
- infrastructure and planning;
- safeguarding;
- resource constraints (financial and workforce); and
- devolution and partnerships.

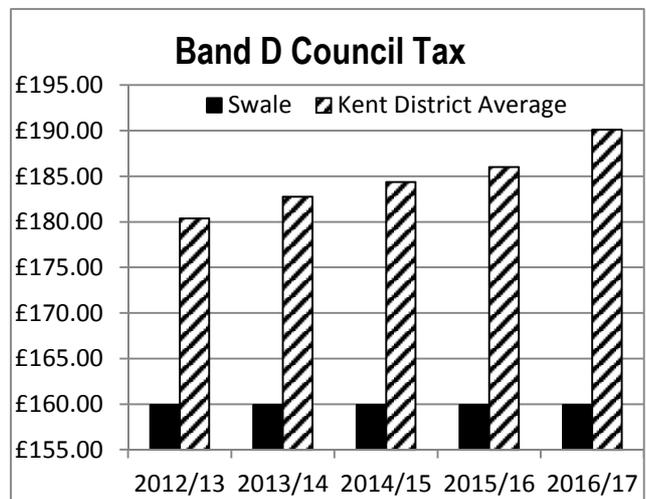
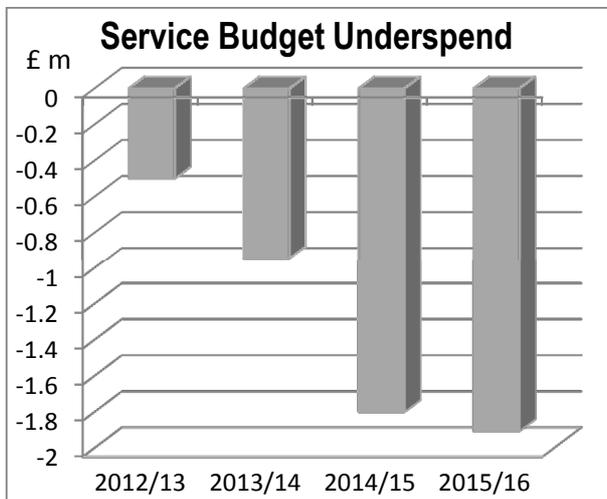
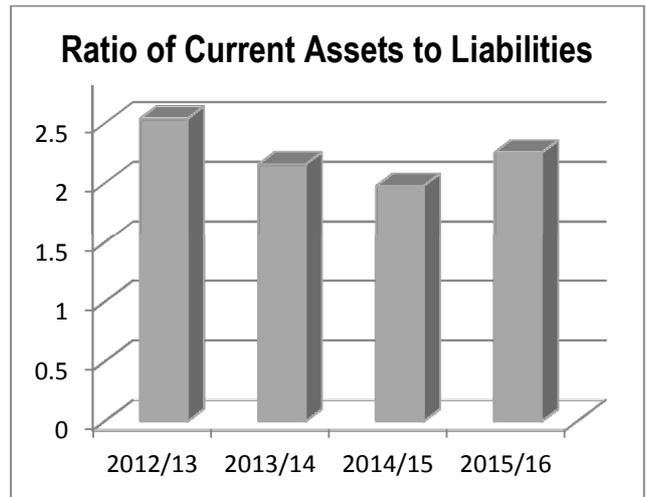
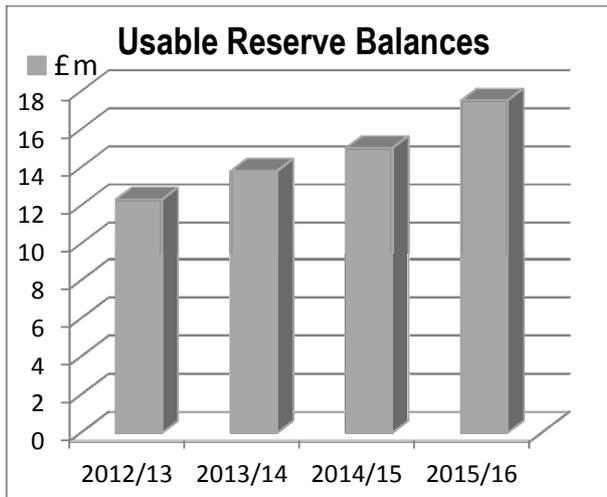
As we move into 2016/17, the comprehensive risk register will be collated, monitored and reported on a quarterly basis to SMT, and then on to Cabinet and Audit Committee. This will enable the Council to gain assurance that significant risks are being managed, and emerging risks, which could impede the Council achieving its objectives, are being identified. Meanwhile, the SMT and Cabinet report template requires information to be provided explaining the risk implications of decisions which enables them to keep risks under review.

How We Manage Data

The Council has a responsibility to keep the personal data it holds securely. In 2015/16 there were eleven reported incidents which amounted to breaches of the Data Protection Act, none of which the Council's Senior Information Risk Owner considered necessary to report to the Information Commissioner. The decision was based on conclusions reached by the Information Commissioner in previous years and also demonstrated that the Council had taken effective and efficient action in minimising the impact of the breaches.

Our Financial Performance by Head of Finance Nick Vickers

Key Indicators of Financial Performance



Our Expenditure and Income for 2015/16

A detailed report on our expenditure and income compared against budget for 2015/16 will be considered by Cabinet on 13 July and Scrutiny on 20 July and can be found on the Council's website (<http://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=129&MId=1714&Ver=4>)

The Council has been able to achieve a significant underspend in the year of £1,958,000 (£1,435,000 underspend in 2014/15). This is primarily due to additional income and savings on contracts. With a well-known flightpath of reduced funding into the medium term, the Council has once again pre-empted future funding reductions by restricting expenditure in year. The capital underspend for the year was £69,400 (£249,000 underspend in 2014/15), and 97% of the planned capital expenditure was spent.

Our Revenue and Capital Monitoring reports are reviewed by our Strategic Management Team every month, and by our Cabinet and Scrutiny Committee every three months. This should make sure we are in a strong position to be able to meet the expected funding gap in future years. Copies of our monitoring reports to Cabinet are available on our website:

<http://services.swale.gov.uk/meetings/ieListMeetings.aspx?CId=129&Year=0>, or by contacting Democratic Services.

The Council's commitment to increasing the business base of the Borough is reflected in significant business rates growth, although for 2015/16 there has also been increases in rate reliefs, successful revaluation appeals and the revaluation of a major manufacturing site no longer trading.

Reviewing Our Financial Performance

The outturn position needs to be seen in the context of the Council's medium term financial position as set out in the February Council budget report. The Council currently has a funding gap of £966,000 in 2017/18 and £2,711,000 in 2018/19. The scope of management efficiency savings and for savings on major contracts is also much reduced. Balancing the budget therefore becomes much more about generating income, in particular business rates and New Homes Bonus.

The table below shows spend against budget for our service departments:

Service	Budget 2015/16 £'000	Actual Spending 2015/16 £'000	Over/ (Under) spend 2015/16 £'000
Commissioning & Customer Contact	5,808	4,782	(1,026)
Economy & Communities	2,194	1,985	(209)
Resident Services	885	639	(246)
Planning	883	911	28
Environmental Health	473	434	(39)
Support Services	4,538	4,221	(317)
Strategic Management and Policy	863	752	(111)
Other Services	2,282	2,244	(38)
Total Service Expenditure in Cabinet Report	17,926	15,968	(1,958)
Adjustments between accounting and funding basis not included in above services	(31)	2,342	2,373
Cost of Services in Comprehensive Income & Expenditure Statement (CI&ES) (see page 23)	17,895	18,310	415
Operating expenditure	1,245	3,879	2,634
Financing and investment	(255)	1,374	1,629
Revenue support grant	(2,929)	(2,929)	0
Business rates	(5,053)	(6,650)	(1,597)
New homes bonus	(2,823)	(2,823)	0
Council tax freeze grant	(158)	(158)	0
Council tax	(7,032)	(7,032)	0
Other taxation & non-specific grants	(953)	(909)	44
(Surplus)/Deficit on Provision of Services in CI&ES (see page 23)	(63)	3,062	3,125
Transfers (to)/from earmarked reserves	(439)	2,341	2,780
Adjustments between accounting and funding basis	444	(5,644)	(6,088)
(Increase)/Decrease in General Fund	(58)	(241)	(183)
General Fund brought forward 1 April 2015	(5,124)	(5,124)	0
General Fund carried forward 31 March 2016	(5,182)	(5,365)	(183)

The above table shows how the increase in the General Fund of £241,000 shown in the Movement in Reserves (page 22) compared to the budget. Our policy is to maintain a balance of at least £1.5 million in the General Fund. The balance of £5.4 million represents 30% of the cost of services budget for 2015/16, and is therefore at an adequate level.

The table below explains the major differences between the budget forecasts and the actual money spent and income received:

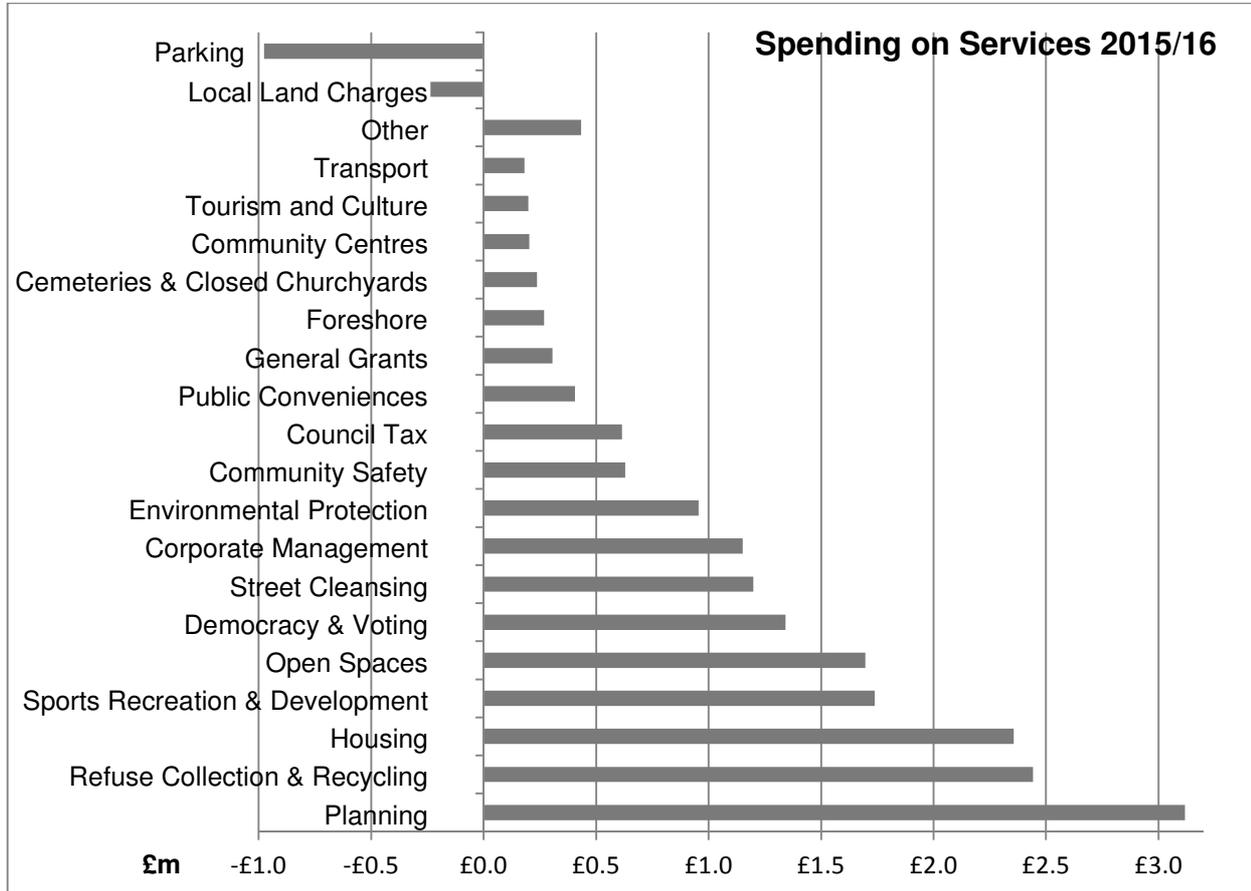
Reason for Budget Variance	£'000
Additional Income	(1,155)
Procurement/Shared Service Savings	(435)
Staff Vacancies	(279)
Delayed Projects	(232)

Reviewing Our Financial Performance

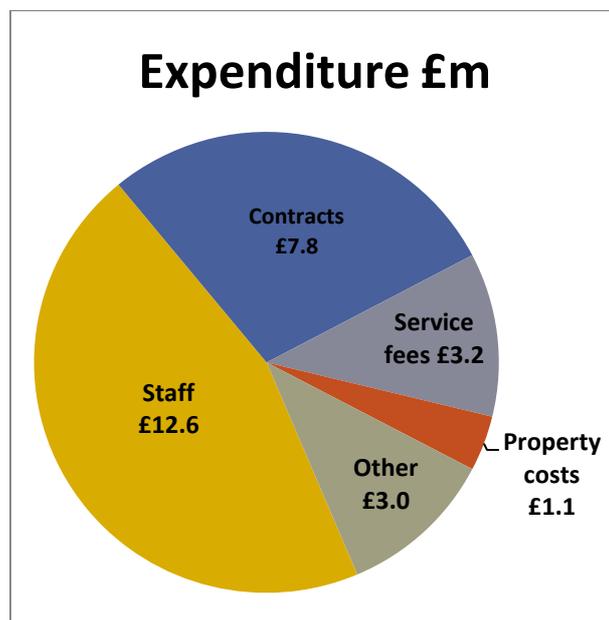
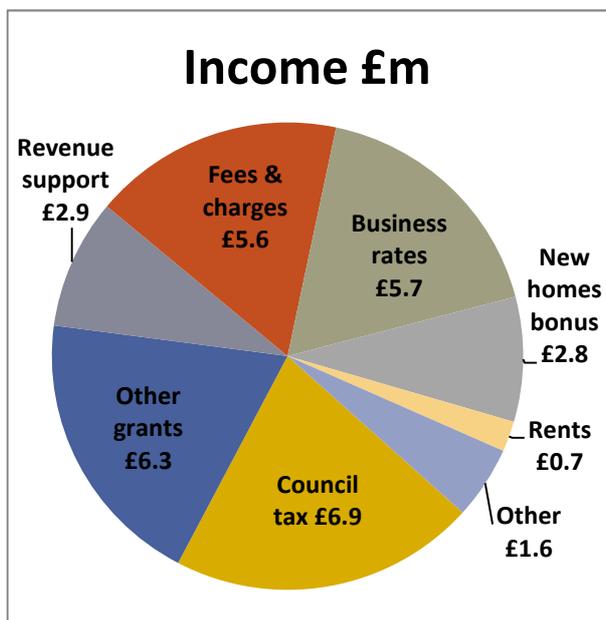
Reason for Budget Variance	£'000
Overspends	302
Other Net Underspends	(159)
Total Budget Variance	(1,958)

Where We Spent the Money and Our Income

We show the cost of running our services in our revenue account known as the Comprehensive Income and Expenditure Statement. This account shows you the costs in 2015/16 of the Council's priorities and the amount left to be financed from local and national tax income. Service costs are shown below:



The two pie charts below show what we spent the money on and how we raised our income.



In addition we:

collected **£65.8m** of council tax for Police, Fire, KCC, Parish Councils and ourselves (£63.2m in 2014/15)

collected **£45.8m** of business rates for Central Government, Fire, KCC, and ourselves (£46.4m in 2014/15)

paid out **£54.7m** on benefits and received **£54.5m** in grant (£55.5m paid, £55.2m received in 2014/15)

How We Pay for Pensions

In 2015/16 the Council's contributions to pension costs was £2.7 million (£2.6 million in 2014/15). We are a member of the Local Government Pension Scheme (LGPS), which KCC runs on our behalf. In the Statement of Accounts pension costs are based on a forecast by an actuary (a professionally qualified independent person appointed to value the pension fund and therefore set contribution rates) of the cost of providing retirement benefits rather than the payments made to the pension fund. The pension deficit has decreased from £64.0 million at 31 March 2015 to £58.3 million at 31 March 2016, mainly because of an increase in the discount rate assumption, which is dependent on bond yields, which have increased.

The level of our contributions to the pension fund is set by our actuary every three years and is based on the pension fund's investment strategy. See note 10 for more information. Reports on the Kent Pension Fund are available from: Kent County Council, Treasury and Investments, Room 2.53, Sessions House, County Hall, Maidstone, Kent ME14 1XQ or by using the following link: www.kentpensionfund.co.uk

How We Manage Our Surplus Funds and Our Cash Flows

The approach we take to invest our surplus funds and manage our day-to-day cash flow is called treasury management. Our total investment averaged £36 million during 2015/16 (£28 million for 2014/15) and closed at £27 million at 31 March 2016 (see note 44, Table 5). We achieved a return of 0.65% for 2015/16 (0.45% for 2014/15), amounting to £232,000 (£127,000 in 2014/15). The increase compared with the previous year is due mainly to an increase in cash flow and improved returns on our investments almost entirely due to investing in the Church Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

We meet Government and accounting requirements on treasury management which emphasise the security of funds. The policy is to avoid unnecessary risk, so we only put money with the safest and most secure financial institutions and a number of very large, wide-ranging money market funds (these are well rated, highly diversified pooled investment vehicles).

The Council does not have any external borrowing as at 31 March 2016. However, at the Council meeting on 16 March 2016, members approved a change to the budget framework to allow for funding to be provided up to a maximum borrowing of £30 million (minute 607/03/2016). The Council's cash flow movements for 2015/16 are detailed in the Cash Flow Statement on page 26.

How We Collect Tax

We collect council tax on behalf of KCC, Police, Fire and Rescue, and Parishes, and business rates for the Government, KCC, and Fire and Rescue, which is recorded in the Collection Fund. At the year-end, this account had a deficit balance of £581,182, compared with the estimate in January 2016 of £1,225,816, which we took into account when setting the council tax for 2016/17. The difference is mainly due to an increase in collection rates resulting in decreases in outstanding arrears and allowance for debt impairment.

Our Capital Spending for 2015/16

Where spending is on an asset which will benefit us over a number of years, it is called capital. It is funded mainly by Government grants and capital receipts (money from selling land and other assets). The largest element of our capital spend was on our Disabled Facilities Grants (DFG).

The tables below show the main areas of capital spending and how they were funded. More details are shown in note 33.

Reviewing Our Financial Performance

Capital Spending	Budget 2015/16 £'000	Actual Spending 2015/16 £'000	Over/ (Under) spend £'000	Level of Approved Rollover £'000
DFG – Partnership funding	1,132	854	(278)	278
The Meads Community Centre	498	480	(18)	18
Sheppey & Swallows Leisure Centre	0	356	356	0
Wylie Court slabbing over gas main	120	120	0	0
Emergency accommodation, house purchase	200	174	(26)	0
lwade play area	92	0	(92)	92
Other services	336	325	(11)	85
Total	2,378	2,309	(69)	473

Capital Funding	2015/16 £'000
Total Capital Spending	2,309
Source of Funding:	
Capital receipts	125
Capital grants and other contributions	1,833
Earmarked reserves	351
Total Capital Funding	2,309

We plan to spend £2.8 million in the future on capital of which £60,000 will be funded from our own resources with the rest being paid for from external contributions.

Transparency of Our Spending

The Government has promoted how local authorities make information on senior staff salaries and payments to our suppliers available to the public. This information can be found on our website at:

<http://www.swale.gov.uk/transparency/>.

By law, all Councillors must fill in a Declaration of Members' Interest form to register their financial or other interests. The Monitoring Officer maintains the full Register. The public can make an appointment to inspect it during normal office hours, or can see it on our website at: <http://www.swale.gov.uk/register-of-interests/>.

Our Future Performance

There are a number of trends and factors which are likely to affect the future development and performance of the Council and these are:

- the regeneration of Sittingbourne Town Centre;
- the growing dependence on business rates income;
- the national target for eliminating the deficit, which will mean continuing financial pressure on local authorities; and
- the sizeable workforce 'skills gap' in the Swale area.

Our Future Financial Strategy

For Swale, the Government's 2016/17 Local Government Finance Settlement reductions in funding were in line with our assumptions for 2016/17 and then significantly worse for 2017/18 and 2018/19. Our Settlement Funding Assessment fell from £7.034 million in 2015/16 to £6.012 million in 2016/17 and is forecast to fall to £4.367 million by 2019/20.

The budget for 2016/17 reflects the continuation of the Government's deficit reduction programme with a consequent significant further reduction in the funding which the Council receives from Central Government as local government is moving towards being wholly self-financing.

Reviewing Our Financial Performance

We are in a period of transition between fundamentally different approaches to funding local authorities. Beyond the 2016/17 Finance Settlement, there are major new issues which will fundamentally impact on the Council's financial future:

- steeper than expected reductions in Revenue Support Grant and a local authority funding model where the Government assume Council Tax base growth and increases in Council Tax;
- a consultation on major changes to how New Homes Bonus operates with the central proposition being that funding for each property is received for four years rather than six. But New Homes Bonus is then built into the funding model permanently; and
- the launch of a major consultation exercise on the full localisation of business rates by 2020.

In-year monitoring does indicate significant growth in the business rates income. Council has previously agreed that any additional income over the level budgeted for will go into the business rates volatility reserve. The Department for Communities and Local Government have confirmed agreement to a business rate pool for 2016/17 consisting of KCC and all Kent district/borough councils except for Sevenoaks and Dover.

For the sixth year running the Council did not increase its council tax for 2016/17.

The Medium Term Financial Plan (MTFP) is a forecast of the financial position over the next three years to aid the Council in meeting its objectives as set out in the Corporate Plan. The MTFP is underpinned by the following principles:

- achieving a balanced budget position with the base budget requirement being met from core income;
- reserves being used to fund one-off cost pressures; and
- a prudent forecast for business rates.

The principle of the management of reserves moving forward should be:

- maintain a prudent level of reserves to allow the Council to deal with unexpected one-off events; and
- fund one-off items of expenditure against the Council's highest priorities, as determined by members.

The Council's priorities for the use of available capital funds will be:

- projects which support the Council's corporate priorities;
- earmarked receipts related to specific projects e.g. Section 106 monies;
- minimum fulfilment of legal duties;
- essential life and death maintenance work e.g. health & safety; and
- essential remedial expenditure on the Council's IT systems.

The 2016/17 Budget Book can be obtained from our website using the following link:

<http://www.swale.gov.uk/revenue-budget-and-capital-programme/>

On 23 June the UK voted to leave the European Union in the referendum. The impact on local government finance is unclear at this very early stage and therefore no changes have been made to these accounts.

Our Annual Financial Report

Swale Borough Council's Annual Financial Report for 2015/16 provides a record of how we have used our financial resources during the year. Our accounts and all relevant documents are subject to review by Grant Thornton UK LLP – our external auditors.

The Annual Financial Report has the following sections:

- this review of our performance, which gives a background to our financial performance;
- an Annual Governance Statement showing how we meet set standards when carrying out our responsibilities;
- a report from Grant Thornton after they have reviewed the Council's accounts;
- the Statement of Accounts – see below; and,

- a glossary to explain any technical terms used in the report.

The Statement of Accounts

The Statement of Accounts provides a record of the Council's financial position and performance for the year ended 31 March 2016. It has been prepared in line with the Accounts and Audit Regulations 2015. The format meets the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code), and the Service Reporting Code of Practice 2015/16 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The Statement of Accounts appears on pages 22 to 65. Our 'core financial statements' are listed below along with a brief explanation of their purpose:

Movement in Reserves Statement (page 22) - shows the movement on all our reserves (funds set aside) due to the increase or decrease in our net worth as a result of our spending, the income we received, and changes in the value of our assets.

Comprehensive Income & Expenditure Statement (CI&ES) (page 23) - shows all of our spending, income and changes in value in providing our services during the year.

Balance Sheet (page 24) - summarises our financial position at 31 March each year. It shows the assets (what we own) we hold and our liabilities (what we owe) to other parties, and our reserves, separated into those we can use for future spending (usable reserves) and those created to reconcile the technical aspects of accounting (unusable reserves).

Cash Flow Statement (page 26) - summarises the cash that moved into and out of our bank accounts over the financial year.

Accounting Policies (page 27) - sets out the policies we adopted for drawing up the various accounting statements.

New Accounting Policies in 2015/16

There has been one significant change to our accounting policies for 2015/16 as a result of the introduction of the concept and definition of current value for the measurement of property, plant and equipment. This concept requires that local authorities measure the service potential and thus operating capacity used to deliver local authority goods and services inherent in the assets. The Code requires that non-operational property, plant and equipment classified as surplus assets and investment assets are measured at fair value. This has been applied only from 2015/16. Our accounting policies provide more detail on the implications of this change.

Further Information

You can get more information about the accounts by emailing the Swale Finance Department at finance@swale.gov.uk.

You have the right in law to inspect the accounts from 1 July 2016 to 11 August 2016 inclusive. During this period, if you live in the Borough of Swale, you (or a representative for you) may object to the Council's accounts asking that the auditor issue a report in the public interest and/or apply to the court for a declaration

that an item in the accounts is contrary to law. Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at their address – Grant Thornton UK LLP, Grant Thornton House, Melton Street, London NW1 2EP - and copied to myself at the Council.

The availability of accounts for inspection has been advertised in the local press, the Council website and Council offices. More details are available from the Council website: <http://www.swale.gov.uk/statement-of-accounts/>.



Nick Vickers B.Sc (Econ), CPFA
Head of Finance
30 June 2016

Scope of Responsibility

Swale Borough Council is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for; and
- public money is used economically, efficiently and effectively.

The Council also has a duty under the Local Government Act 1999 to make arrangements to secure 'Best Value' in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In meeting this obligation, the Council has a responsibility for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. A schematic summarising how the Council meets this obligation is set out below.

The Council has adopted a local code of corporate governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework 'Delivering Good Governance in Local Government'.

This Statement explains how Swale Borough Council has complied with the principles of good governance and reviews the effectiveness of these arrangements. It also meets the requirements of the Accounts and Audit Regulations 2015.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives, and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework, and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives, and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of Council's policies, aims and objectives;
- evaluate the likelihood of those risks being realised and the impact should they be realised; and
- manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2016, and up to the date of approval of the Statement of Accounts.

The Council's Governance Framework

A brief description of the key elements of the Council's governance framework is described below.

Communicating the Council's Vision

The Council's Corporate Plan, Making Swale a Better Place, sets out an overarching statement of the Council's strategic objectives for the period April 2015 to March 2018. The Plan is structured around three high level priorities, each containing a number of specific objectives. The three themes are:

- A Borough to be Proud Of
- A Community to be Proud Of
- A Council to be Proud Of

This is the Council's third corporate plan, and the latest is very much an evolution based upon what has preceded it. In governance terms it is the document that sets out the Council's priority outcomes in terms of sustainable economic, social, and environmental outcomes.

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The Council has a range of performance indicators it uses to monitor the quality of its services and measure progress against its objectives. These are set out in the performance reports considered by the Strategic Management Team on a monthly basis, and by Cabinet and Scrutiny Committee on a quarterly basis.

Management of Resources

The Council seeks to use its resources efficiently and obtains value for money via a number of arrangements. These include:

- a medium term financial strategy and annual budget process that ensures that financial resources are directed to the Council's priorities;
- partnership working with a range of organisations where there are shared objectives and clear benefits from joint working. The most significant of the partnership arrangements is the Mid Kent Improvement Partnership (MKIP) with Maidstone and Tunbridge Wells Borough Councils; and
- a co-ordinated and structured approach to better procurement practices across the Council. Whilst significant improvements have taken place across the board in the Council's procurement of goods and services, the joint waste and street cleansing contract with Kent County Council and Maidstone and Ashford Borough Councils stands out, both for service improvement and the very substantial cost savings achieved.

Member and Officer Working Arrangements

Roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. The Cabinet is the main decision-making body of the Council, and for 2015/16 it was made up of nine members who have responsibility for particular portfolios.

The Council also appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These arrangements, and the delegated responsibilities of officers, are fully set out in the Council's Constitution.

The Constitution also includes both a Member and an Officer Code of Conduct, which describe and regulate the way in which members and officers should interact to work effectively together.

The Council's overview and scrutiny arrangements have continued to evolve. Since March 2014 there has been a Scrutiny Committee which scrutinises decision-making and performance, and holds Cabinet to account for these; and a Policy Development and Review Committee, which does not have formal scrutiny powers but which provides a mechanism for members to consider and feed into policy proposals before formal decisions are taken.

The Council's Audit Committee has a remit consistent with those identified in the CIPFA publication 'Audit Committees – Practical Guidance for Local Authorities'. It provides assurance to the Council on the effectiveness of its governance arrangements, risk management framework and internal control environment. The Committee regularly reviews the internal audit work programme, the results of internal audit work, and management's implementation of audit recommendations.

A central role on governance issues is undertaken by the Council's three statutory officers; the Head of Paid Service, the Monitoring Officer/Proper Officer, and the Chief Financial Officer (CFO).

The Chief Executive (and Head of Paid Service) is accountable for the delivery of the Council's services, its budget, the work of the Council's employees and the work undertaken for the Council by a variety of partners and contractors who deliver a wide range of services to the community. The role of Chief Executive is a permanent appointment, which requires the approval of the full Council following the recommendation of a candidate for the role by the Appointments Sub Committee of General Purposes Committee.

Section 5 of the Local Government and Housing Act 1989, as amended by paragraph 24 of schedule 5 Local Government Act 2000, requires the Council to designate one of its senior officers as the Monitoring Officer. This role is undertaken by the Director of Corporate Services, who is responsible for:

- ensuring that the Council acts and operates within the law. He or she has a duty to report to the whole Council if the Council has broken or may have broken the law;

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- maintaining arrangements to support the Council's functions and activities, including regular reviews of the Council's Constitution;
- supporting the Council's Standards Committee, and helping to promote and maintain high standards of conduct by Council members, officers, partners and contractors;
- establishing and maintaining a register of interests (including receipts of gifts and hospitality); and
- receiving reports and taking action under the Council's Confidential Reporting Code, which supports whistleblowing by staff.

The Director of Corporate Services is a direct report to the Chief Executive.

The Head of Finance, as the Section 151 Officer appointed under the 1972 Local Government Act, is the Council's CFO, who carries overall responsibility for the financial administration of the Council. The Council's governance arrangements relating to the role of the CFO comply with those arrangements set out in the CIPFA statement on the role of the CFO in Local Government (2010).

The role of Head of Internal Audit is assigned to the post of the Head of Audit Partnership, an arrangement covering the three MKIP Councils and Ashford Borough Council. This role is responsible for the Council's internal audit service, including drawing up the Internal Audit Strategy and related annual plan, and giving the annual Audit Opinion. The Council's arrangements conform to Public Sector International Audit Standards, as independently assessed by the Institute of Internal Audit. The Standards are the "proper practices in relation to internal control" referenced in the "Public Sector Internal Auditing Standards or Guidance". The Head of Audit Partnership's operational responsibilities are set out in the Internal Audit Charter, and are consistent with the independence requirements set out in the Standards. The Head of Audit Partnership role also conforms to the principles set out in the CIPFA statement on the role of the Head of Internal Audit in Public Service Organisations (2010). Swale Borough Council is in the position of being the only Council covered by the partnership with no weak/poor reports in 2015/16.

The Council has clearly set out terms and conditions for the remuneration of members and officers, and there is an effective structure for managing the process of review. A Scheme of Members' Allowances has been set by the Council, having regard to a report of an Independent Panel made up of non-Councillors. The Council sets and publishes a 'Pay Policy Statement' which provides transparency with regard to the Council's approach to setting the pay of its employees. The 'Pay Policy Statement' is reviewed annually.

All employees have clear conditions of employment, and job descriptions which set out their roles and responsibilities.

Promoting Values and Upholding High Standards of Conduct and Behaviour

The Council has a Standards Committee to promote high standards of member conduct. Elected members have to agree to follow a Code of Conduct to ensure high standards in the way they undertake their duties.

In the last two years the Committee has met once a year to receive an annual report from the Director of Corporate Services in his role as Monitoring Officer.

Officer behaviour is governed by the Officer Code of Conduct. The Code has been formulated to provide a set of standards of conduct expected of employees at work and the link between that work and their private lives.

The Council takes fraud, corruption and maladministration seriously, and as such has established policies and processes which aim to prevent or deal with such occurrences. These include:

- an Anti-Fraud and Anti-Corruption Strategy;
- a Whistleblowing Policy;
- various HR policies regarding discipline of staff involved in such incidents;
- various procurement policies; and
- a corporate complaints procedure exists to receive and respond to any complaints received.

Arrangements exist to ensure that members and employees are not influenced in their decision-making by prejudice, bias or conflicts of interest in dealing with different stakeholders. These include:

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- registers of disclosable pecuniary interests and disclosable other interests;
- declarations of disclosable pecuniary interests and disclosable other interests at the start of each meeting in which discussions involve a matter in which a member has an interest;
- registers of gifts and hospitality for Officers;
- an Equalities Scheme and Equal Opportunities Policies; and
- comprehensive member induction.

Taking Informed and Transparent Decisions and Managing Risk

The Council's decision-making processes are clear, open and transparent. The Council's Constitution sets out how the Council operates and the processes for policy and decision-making. Key decisions are published in the Council's Forward Plan. Agendas and minutes of all meetings are published on the Council's website.

The Council provides decision-makers with full and timely access to relevant information. The Cabinet report template requires information to be provided explaining the legal, financial and risk implications of decisions, as well as inter alia implications for each of the corporate priorities, and any equality and diversity implications.

During the year the Council reviewed and updated its approach to Risk management. Previously there were five high level strategic risks, and a large number of operational risks identified at service unit level. Work is currently underway on a new approach which will result in a comprehensive risk register bringing together risk across the Council. This approach has identified five major themes:

- regeneration projects (including Sittingbourne Town Centre);
- infrastructure and planning;
- safeguarding;
- resource constraints (both financial and workforce); and
- devolution and partnerships.

Developing the Capacity and Capability of Members and Officers

The Council recognises that the success of its business is built upon the knowledge, expertise and commitment of its workforce. Development and retention of staff therefore remains a priority for the Council.

The Council continues to put great emphasis on the management and development of its key resource - the people who work for the Council. There are well-established performance appraisal and development processes for all staff. The Council has developed its values - Fairness, Integrity, Respect, Service and Trust (FIRST) - to clearly describe how we do things, and all employees have been engaged in activities to help them be aware of how we expect them to work so that they behave in ways which are consistent with these values.

The Council also has a Staff Engagement Strategy. Communications with staff are paramount, with a monthly Team Talk document, three all staff briefings a year led by the Chief Executive, weekly Strategic Management Team meetings, monthly Corporate Leadership Team meetings, monthly team meetings, and quarterly of third tier managers. These processes are supplemented by a staff group with direct access to SMT. During 2015/16 the strength of the processes was verified by the award of the Investors in People Gold standard.

The cross-party Member Development Working Group takes an overview of the approach to member development. It continues to operate to the principles which underpin the Member Development Charter.

Engagement with Local People and Other Stakeholders to Ensure Robust Public Accountability

The Council has reviewed its approach to engagement with residents, and in particular the roles played by the three Local Engagement Forums and the Rural Forum. A report was brought to Council in March 2016 recommending that the four bodies should be abolished as they were not providing a fit-for-purpose approach in an age of social media. The recommendation was agreed.

In their place the Council will arrange for public meetings to be organised on an ad hoc but timely basis where there is a significant or contentious local issue that requires discussion. Greater reliance will also be placed on the quarterly Inside Swale magazine, more use of direct mail on specific issues, and use of more immediate

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communication routes such as Twitter and Facebook. There are also well-established processes for formal consultation where required on specific policy issues.

The Council also engages with partners and stakeholders through various partnerships such as the Public Services Board, the Community Safety Partnership, the Swale Economy and Regeneration Partnership, the local Health and Wellbeing Boards, and the Green Grid Partnership, to ensure collaboration on strategic issues and joint responsibility for working together for the benefit of the residents of Swale.

The Council also engages with the voluntary, community and business sectors, working closely with Swale Community & Voluntary Services and communicating through the Swale Community Empowerment Network. It also disseminates and incorporates information about the Council within various e-bulletins and newsletters that go to these groups e.g. the Business Bulletin and Active Swale Bulletin.

Review of Effectiveness

The Council annually reviews the effectiveness of its governance framework, including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, through the work of internal audit, and by comments made by the external auditors and other inspection agencies.

The processes applied in maintaining and reviewing the effectiveness of the system of governance include:

- the work of the Audit Committee;
- the work of the Standards Committee;
- the role of the Scrutiny Committee in holding the Cabinet to account;
- the operation of the Council's performance management frameworks, including an Annual Report and the wider approach to risk management;
- the work of Internal Audit as an assurance function that provides an independent and objective opinion to the Council on its control environment;
- the external auditor's opinion report on the Council's financial statements, and his conclusion on whether the Council has put in place proper arrangements to secure efficiency and effectiveness in its use of resources (the Value for Money conclusion);
- the roles of the Council's Statutory Officers;
- the corporate complaints procedure; and
- the anti-fraud and corruption and whistleblowing framework.

In the 2014/15 Annual Governance Statement three main areas for attention moving forward were identified. The latest position on these is as follows:

Issue	Updated position
Updating the Fraud and Corruption Policy, and embedding it within the Council.	Following movement of much of the Council's external facing counter fraud work to the Department of Work and Pension's (DWP) Single Fraud Investigation Service in early 2016, the Council has been considering a way forward on its counter fraud and corruption approach. This will include amendments to the Internal Audit Charter in March 2016, which clarifies how Internal Audit can take a more active role in Counter Fraud (including ownership of corporate policies) in a way that is consistent with the Public Sector Internal Audit Standards. Following this clarification we expect progress on refreshing the Fraud and Corruption Policy in 2016/17, but the existing policy remains in place until updated.
Revising the Council's approach to prioritisation of resources and meeting the financial challenge in the new political environment in the Council.	2016/17 budget balanced without any reductions in front line services.

Annual Governance Statement

Issue	Updated position
Updating the approach to strategic and operational risk management.	Substantial progress has been made, and will be reported to Audit Committee.

Significant Governance Issues

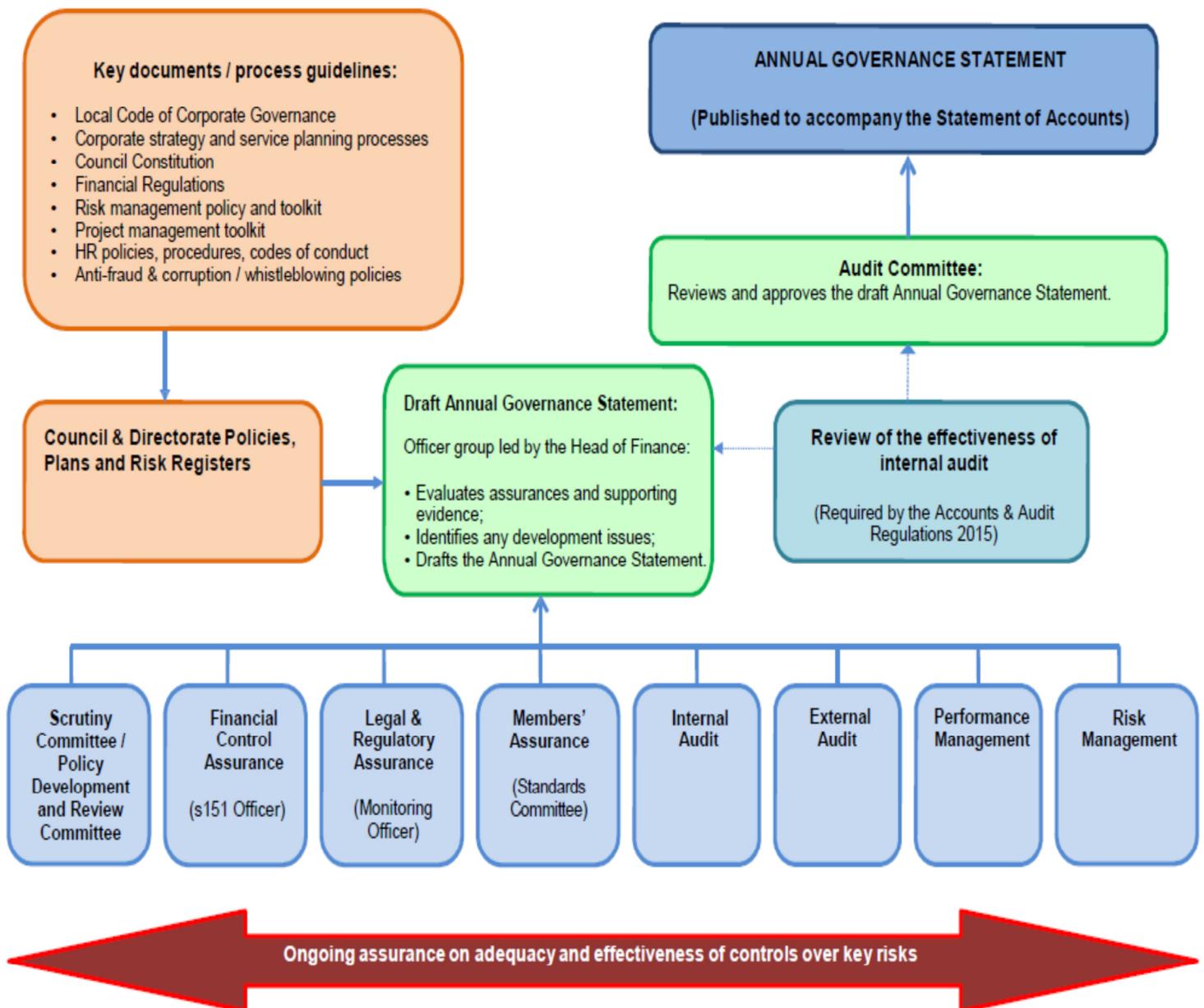
The main areas for member and senior management attention in the coming year are:

- managing the implications of becoming financially self-sustaining, and ensuring proper governance of new income generation opportunities;
- fully embedding the revised approach to risk management; and
- updating the Fraud and Corruption Policy, and embedding it in the Council.

Agreed by:

Leader of the Council Andrew Bowles

Chief Executive Abdool Kara



**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SWALE
BOROUGH COUNCIL**

During July 2016, Grant Thornton UK LLP audited the accounting statements of Swale Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. Grant Thornton will be presenting their opinion of the financial statements to the Council's Audit Committee on 14 September 2016 and the final certification will be included here when it has been issued.

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Head of Finance;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Head of Finance's Responsibilities

As the Head of Finance, I am responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code;
- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I confirm that the accounts present a true and fair view of the financial position of the Authority at the reporting date and its income and expenditure for the year ended 31 March 2016.

Nick Vickers B.Sc (Econ), CPFA
Head of Finance

Date: 30 June 2016

Certification of the Chairman of the Audit Committee

I confirm that the adoption process for the 2015/16 Statement of Accounts has been formally completed and that the Statement of Accounts for the year ended 31 March 2016 was approved by Swale Borough Council in accordance with the Accounts and Audit Regulations (England) 2015 at the meeting of the Audit Committee on 14 September 2016.

Councillor Nicholas Hampshire
Chairman of the Audit Committee
14 September 2016

Movement In Reserves Statement – The Change In The Council’s Resources

	General Fund Balance £'000	Revenue Ear-marked Reserves £'000 Note 19	Capital Receipts Reserve £'000 Note 17	Capital Grants Un-applied £'000 Note 18	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
Balance as at 31 March 2014	(4,618)	(7,564)	(1,331)	(243)	(13,756)	7,703	(6,053)
Surplus on provision of services 2014/15 (page 23)	(2,005)	0	0	0	(2,005)	0	(2,005)
Other comprehensive expenditure or income 2014/15 (page 23)	0	0	0	(15)	(15)	7,014	6,999
Total Comprehensive Expenditure and Income 2014/15	(2,005)	0	0	(15)	(2,020)	7,014	4,994
Adjustments between accounting basis and funding basis (note 47) 2014/15	350	0	420	(11)	759	(759)	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves 2014/15	(1,655)	0	420	(26)	(1,261)	6,255	4,994
Transfers (to)/from earmarked reserves 2014/15 (note 19)	1,149	(1,149)	0	0	0	0	0
(Increase)/Decrease in 2014/15	(506)	(1,149)	420	(26)	(1,261)	6,255	4,994
Balance as at 31 March 2015	(5,124)	(8,713)	(911)	(269)	(15,017)	13,958	(1,059)
Deficit on provision of services 2015/16 (page 23)	3,062	0	0	0	3,062	0	3,062
Other comprehensive expenditure or income 2015/16 (page 23)	0	0	0	0	0	(14,068)	(14,068)
Total Comprehensive Expenditure and Income 2015/16	3,062	0	0	0	3,062	(14,068)	(11,006)
Adjustments between accounting basis and funding basis (note 47) 2015/16	(5,644)	0	(216)	(43)	(5,903)	5,903	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves 2015/16	(2,582)	0	(216)	(43)	(2,841)	(8,165)	(11,006)
Transfers (to)/from earmarked reserves 2015/16 (note 19)	2,341	(2,341)	0	0	0	0	0
(Increase) in 2015/16	(241)	(2,341)	(216)	(43)	(2,841)	(8,165)	(11,006)
Balance as at 31 March 2016	(5,365)	(11,054)	(1,127)	(312)	(17,858)	5,793	(12,065)

On an accounting basis the Council made a deficit of £3.062m for 2015/16, due mainly to the value of an asset removed from the Council's accounts (as a result of a Community Asset Transfer) being charged to services. However, this cost is reversed as an adjustment between the accounting basis and funding basis as it is not one that is borne by the Council's taxpayers, resulting in an overall increase in the reserves of £2.8m which are available for future funding of services. The details of the deficit on an accounting basis on the Council's services can be seen in the next statement the Comprehensive Income and Expenditure as the Deficit on the Provision of Services.

**Comprehensive Income & Expenditure Statement –
Why The Council's Resources Changed**

	2015/16 Gross Expenditure £'000	2015/16 Income £'000	2015/16 Net Expenditure £'000	2014/15 Net Expenditure £'000
Central Services (including Public Health)	2,484	(1,314)	1,170	1,182
Corporate & Democratic Core	3,559	(1,271)	2,288	2,177
Cultural & Related Services	5,015	(908)	4,107	1,512
Environmental & Regulatory Services	8,205	(2,315)	5,890	5,515
Highways & Transport Services	1,650	(2,444)	(794)	(792)
Housing Services	61,269	(58,912)	2,357	2,559
Planning Services	4,351	(1,233)	3,118	2,387
Non Distributed Costs	174	0	174	18
Cost of Services	86,707	(68,397)	18,310	14,558
Other Operating Expenditure				
Parish precepts	929	0	929	865
Drainage board levy	326	0	326	320
Housing capital receipts pool	1	0	1	1
Losses on disposal of non-current assets (note 16)	2,980	(357)	2,623	436
Financing and Investment Income and Expenditure				
Interest payable & similar charges	75	0	75	68
Net interest on the net defined pension liability	2,066	0	2,066	2,228
Interest receivable & similar income	5	(235)	(230)	(118)
Gains on Trading Undertakings	259	(407)	(148)	(168)
Income & expenditure - investment properties (note 30)	35	(205)	(170)	(148)
Gains in relation to investment properties and changes in their fair value (note 30)	6	(225)	(219)	(133)
Taxation and Non-Specific Grant Income and Expenditure				
Council tax	0	(7,966)	(7,966)	(7,749)
Business rate income	0	(17,956)	(17,956)	(17,434)
Tariff & levy for business rates paid to Government	11,711	0	11,711	12,473
Contribution paid to Business Rates Pool	1,092	0	1,092	0
Income received from Business Rates Pool	0	(658)	(658)	0
Recognised capital grants and contributions	0	(615)	(615)	(329)
Council Tax freeze grant	0	(158)	(158)	(79)
Revenue support grant	0	(2,929)	(2,929)	(4,297)
New homes bonus	0	(2,823)	(2,823)	(2,269)
Other non-ring-fenced Government grants	0	(74)	(74)	(105)
Preceptors council tax support grant	0	(125)	(125)	(125)
(Surplus)/Deficit on Provision of Services			3,062	(2,005)
Net Surplus on revaluation of non-current assets (note 20)	These will not be reclassified to Provision of Services		(6,548)	(3,670)
Re-measurement of net defined pension liability (note 10)			(7,501)	10,521
Receipts from long-term debtors			66	66
(Surplus)/Deficit on revaluation of available for sale assets (may be reclassified to Provision of Services)			(85)	82
Other Comprehensive Income & Expenditure			(14,068)	6,999
Total Comprehensive Income & Expenditure			(11,006)	4,994

The CI&ES shows how the deficit on the Provision of Services of £3.062m was achieved. In addition, it also shows the total change in the value of the Council with an increase in the valuation of its assets being offset by a reduction in the accounting value of its forecast future pension costs. The £11.006m total shows the gains in the value of the assets and liabilities of the Council and is the total of the movement on the Balance Sheet below.

Balance Sheet – The Council's Resources

	Note	31 March 2016		31 March 2015	
		£'000	£'000	£'000	£'000
Total Property, Plant and Equipment	26		52,198		49,300
Heritage Assets	29	579		579	
Investment Property	30	3,075		2,753	
Intangible Assets		128		132	
Long-Term Investments	23	1,504		1,420	
Long-Term Debtors	40	2,669		2,511	
			7,955		7,395
Total Long-Term Assets			60,153		56,695
Current Assets					
Short-Term Investments	44 T5	12,989		13,000	
Inventories		10		4	
Cash and Cash Equivalents	42	11,891		10,851	
Short-Term Debtors	41	3,814		3,849	
Total Current Assets			28,704		27,704
Total Assets			88,857		84,399
Current Liabilities					
Short-Term Creditors	35	(11,465)		(12,045)	
S106 Deferred Revenue Receipts	36	(200)		(170)	
Revenue Grant Receipts in Advance	13	(99)		(175)	
Provisions	39	(804)		(1,623)	
Total Current Liabilities			(12,568)		(14,013)
Total Assets less Current Liabilities			76,289		70,386
Long-Term Liabilities					
Long-Term Creditors	34	(60)		0	
Deferred Liabilities	37	(550)		(753)	
Liability Related to Defined Benefit Pension Scheme	10(f)	(58,297)		(64,037)	
Capital Grant Receipts in Advance	38	(2,060)		(3,129)	
S106 Deferred Revenue Receipts	36	(695)		(597)	
Provisions	39	(2,562)		(811)	
Total Long-Term Liabilities			(64,224)		(69,327)
Net Assets			12,065		1,059

Balance Sheet – The Council’s Resources

	Note	31 March 2016		31 March 2015	
		£'000	£'000	£'000	£'000
Financing:					
Unusable Reserves					
Revaluation Reserve	20	(16,712)		(11,915)	
Deferred Capital Receipts Reserve		(20)		(6)	
Accumulated Absences Account	24	122		142	
Capital Adjustment Account	21	(36,667)		(38,292)	
Collection Fund Adjustment Account	22	787		(91)	
Pensions Reserve	25	58,297		64,037	
Financial Instruments Adjustment Account		(10)		1	
Available for Sale Reserve	23	(4)		82	
Total Unusable Reserves			5,793		13,958
Total Usable Reserves	MIRS		(17,858)		(15,017)
Total Reserves			(12,065)		(1,059)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

The usable reserves are detailed on the Movement in Reserves Statement and can be used to fund expenditure or reduce local taxation. The movement in cash that resulted in the Cash and Cash Equivalents balances of £11.891m shown above is detailed in the Cash Flow Statement.

As the responsible financial officer for Swale Borough Council, I hereby certify that these unaudited accounts give a true and fair view of the Authority’s financial position and financial performance in advance of approval.

Nick Vickers B.Sc (Econ), CPFA
Head of Finance

Date: 30 June 2016

Cash Flow Statement – Movement In Council’s Resources In Cash

	2015/16		2014/15
	£'000	£'000	£'000
Net (Deficit)/Surplus on the Provision of Services (see CI&ES)		(3,062)	2,005
Depreciation	1,258		1,579
Impairment & downward valuations	456		(2,874)
Movement in market value of investment property and upward revaluation	(219)		(133)
(Decrease)/Increase in creditors	(2,329)		3,090
(Increase) in debtors	(167)		(723)
(Decrease)/Increase in impairment for bad debts	(77)		415
Movement in provisions	932		1,388
Movement in pension liability	1,760		1,590
Carrying amount of non-current assets and current assets held for sale, sold or derecognised	2,981		538
Other movements	(6)		(12)
Adjustment to Net Surplus on the Provision of Services for Non-Cash Movements		4,589	4,858
Adjustment for items included in the net surplus on the provision of services that are investing and financing activities		(1,878)	(1,282)
Net Cash (Outflows)/Inflows from Operating Activities		(351)	5,581
Purchase of property, plant and equipment, investment property and intangible assets	(1,176)		(863)
Net Movements of short-term and long-term investments	11		(14,501)
Other payments for investing activities	(273)		(461)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	357		109
Other receipts from investing activities	2,483		1,609
Net Cash (Outflows)/Inflows from Investing Activities		1,402	(14,107)
Council tax and business rates adjustments	163		(235)
Cash payments for the reduction of outstanding liabilities relating to finance leases	(174)		(189)
Net Cash (Outflows) from Financing Activities		(11)	(424)
Net (Decrease)/Increase in Cash or Cash Equivalents		1,040	(8,950)
Cash and cash equivalents as at 1 April (note 42)		10,851	19,801
Cash and cash equivalents at 31 March (note 42)		11,891	10,851
Net (Decrease)/Increase in Cash or Cash Equivalents During Year		1,040	(8,950)

The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period and how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Financing activities represent the cash effect of the collection of local taxes, i.e. council tax and business rates.

The cash flow for operating activities includes £230,000 for interest received (£118,000 in 2014/15) and £75,000 for interest paid (£68,000 in 2014/15).

1. Accounting Policies – General Principles

The Statement of Accounts summarises the Council's transactions for the 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code and the Service Reporting Code of Practice 2015/16, supported by IFRS. However, where there is no corresponding entry for 2015/16, the relevant accounting policy has been omitted.

Accounting Convention

The accounting convention adopted in the Statement of Accounts for the basis of measurement is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on a going concern basis, i.e. on the assumption that the Council will continue to operate for the foreseeable future. The accounting concepts are supported by the fundamental qualitative characteristics of relevance, faithful representation and materiality and four enhancing qualitative characteristics of comparability, verifiability, timeliness and understandability. Where a particular accounting treatment is prescribed by legislation, then the treatment prevails even if it conflicts with one or other of the above accounting concepts. In the unlikely event of this arising, a note to that effect will be included in the accounts.

Accruals and Revenue Recognition

Expenditure and Income is accounted for in the year that it takes place, not simply when cash payments are made or received and relates to activity on all of the Council's functions including non-exchange transactions e.g. council tax and business rates. In particular:

- revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received, including those from employees, are recorded as expenditure when the services are received rather than when payments are made;
- revenue relating to such things as council tax, business rates, etc. shall be measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. Exceptions to this are utility bills, insurance premiums and income from car parking, which are, in the main, charged or credited to the year in which billed, rather than be apportioned between years as the effect of adjusting for opening and closing balances would not be material to the total of transactions for the year.

2. Accounting Policies

Capital Receipts

Income from the sale of capital assets is categorised as capital receipts and credited to the Usable Capital Receipts Reserve. After deductions the usable element can then only be used for new capital investment or set aside to reduce the Council's borrowing requirement.

Cash and Cash Equivalents

Cash and Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of change in value and are shown on the Balance Sheet at their nominal value. The Council has defined cash equivalents as investments that do not require notice for withdrawal.

Credit Sale Arrangement

A credit sale arrangement is where the Council enters into an agreement that has the features of a finance lease, but where some of the assets may be received in the future. Assets are capitalised and depreciated over their useful economic life.

The sum shown in the Balance Sheet (under Deferred Liabilities) is the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. Where capital expenditure is due to be provided in future years, payments in advance are recognised in the Balance Sheet as appropriate.

Employee Benefits – Costs

The Code requires that the Council identifies the costs of any employee benefits accrued but untaken at the Balance Sheet date. These costs primarily consist of any untaken leave and time in lieu. The accrual is charged to Surplus or Deficit on the Provision of Services on the CI&ES, but then reversed out through the Movement in Reserves Statement.

Termination benefits are amounts payable due to a decision by the Council to terminate an officer's employment before the normal retirement date, or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the CI&ES at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

Employee Benefits – Retirement Benefits

The liabilities of the KCC Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, and projections of projected earnings for current employees. The value of the KCC Pension Fund liabilities has been assessed by Barnett Waddingham, an independent firm of actuaries.

Liabilities are discounted to their value at current prices, using a discount rate of 3.6%. The discount rate is the annualised yield at the 18-year point on the Merrill Lynch AA-rated corporate bond curve, chosen to meet the requirements of International Accounting Standard (IAS) 19 and with consideration of the estimated duration of employer's liabilities.

The assets of the KCC Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate of fair value;
- unitised securities – current bid price; and

- property – market value.

The change in the net pension's liability is analysed into the following components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the revenue accounts of services for whom the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services as part of Non Distributed Costs;
- net interest on the net defined benefit liability – this is made up of two elements: (1) the value of the liabilities increases as a year's worth of interest is added on; and (2) the increase in assets used to fund pensions in line with the discount rate. This is charged to the Financing and Investment Income and Expenditure line of the CI&ES;
- return on plan assets – the funds that are built up to finance the pension payments are the plan assets and this shows the return on them excluding amounts included in net interest on the net defined benefit liability. This is charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- changes in financial/demographic assumptions, loss of defined benefit obligation, other losses and return on assets less interest – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- contributions by scheme participants – cash paid by staff as employee contributions to the KCC Pension Fund;
- employer contributions – cash paid by the Council to the KCC Pension Fund; and
- benefits paid – payments made directly to pensioners from the KCC Pension Fund.

The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

The Fund's Actuary determines employers' contributions to the pension scheme on a triennial basis. The last actuarial valuation took place on 31 March 2013 and the change in contribution rates as a result of that valuation took effect from 1 April 2014.

Estimation Techniques

Estimation techniques are the methods adopted by the Council to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. Details of where these have been used are contained in the relevant note to the Accounts. Where a change in an estimation technique is material, an explanation is also provided of the change and its effect on the results for the current period.

Financial Instruments

Financial instruments are recognised on the Balance Sheet only when the Council becomes a party to the contractual provisions of the instrument. Trade receivables are an exception as they are not recognised when the Council becomes committed to supply the goods or service but when the ordered goods or services have been delivered or rendered. Similarly, trade payables are recognised when the ordered goods or services have been received.

Financial assets are classified as one of:

- available-for-sale – this category includes;
 - Money Market Funds (MMFs) and are initially measured and carried at fair value;
 - British Government Stocks which are shown in the Balance Sheet at cost; and
 - Investment in CCLA Property Fund carried at fair value.

Notes to the Core Financial Statements

- loans and receivables – this category includes fixed term deposits, call accounts and trade receivables (debtors) and are initially measured at fair value and carried at their amortised cost.

Financial liabilities are classified as financial liabilities measured at amortised cost.

The fair value of a financial instrument on initial recognition is generally the market price.

The reconciliation of amounts based on accounting regulations charged to the CI&ES to the net charge required by statute against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

The Council has made loans with nil interest charged (soft loans). The interest rate used to calculate the fair value of soft loans is calculated by taking the Council's effective loss on interest receivable over the life of the loan. No allowance for the risk that the loan might not be repaid has been applied as a charge is placed on each property for Housing Interest Loans. The fair value of soft loans is only calculated where the value of the outstanding advance is over £100,000. For accounting purposes a charge based on an appropriate rate of interest is charged to the CI&ES, but this is then reversed out through a transfer to the Financial Instruments Adjustment Account, via the Movement in Reserves Statement so this is not borne by the local taxpayer.

Government Grants and Other External Contributions

Receipts defined as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, grants specific to a service will be shown against that service expenditure line. General grants, e.g. Revenue Support Grant and the Council's share of business rates from the Collection Fund are credited and disclosed separately in the CI&ES under Taxation and Non-Specific Grant Income.

Capital grants and contributions received will be credited in full to the CI&ES on receipt where there are no conditions attached to their use, and in the year that the capital expenditure is incurred where there are conditions attached to their use.

Heritage Assets

A Heritage Asset is a tangible or intangible asset that is intended to be preserved in trust for future generations because of its historical, artistic, scientific, technological, geophysical or environmental qualities and is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are carried at valuation (e.g. insurance valuation) rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon.

Intangible Assets

These are non-current assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights.

An intangible asset is initially measured at cost and is not subject to revaluation. It is, however, subject to amortisation, which for computer software has been assessed, as up to a maximum of seven years.

Interests in Companies

The Council has identified interests in a company (as an associate) and another entity (as a subsidiary) that would require it to prepare group accounts. The value of these two interests is not material and the Council has not prepared group accounts for this reason. The interests are recorded in the Council's own single-entity accounts in accordance with proper accounting practices.

Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. They are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between parties at arm's length (i.e. market value, the amount that would be paid for the asset in its highest and best use). Properties are not depreciated but are revalued annually according to market conditions at the year-end.

Joint Operations

Joint operations are activities undertaken by the Council in conjunction with other bodies that involve the use of the assets and resources of the bodies rather than the establishment of a separate entity.

The Council maintains 'shared service' operations in respect of its Human Resources, Parking, Internal Audit, Legal, Information Technology, Planning Support, Local Land Charges, Environmental Health, Fraud Investigation, Debt Recovery and Building Control services. The shared service arrangements have been assessed against the definitions within the Code and the Council has decided that the MKIP Board is a non-decision making body (decisions to enter into a shared service and the level of involvement and consequent cost, lie with each authority via its own decision making mechanism) and there is then a collaboration agreement in place for each shared service. The arrangements do not allow a position where two authorities can compel a third to do something. Operational management is via the relevant Shared Service Board, which is comparable to a contract monitoring meeting. The Council's level of 'control' is therefore no more than in any other contractual arrangement and accordingly all expenditure and income of these services is accounted for within the CI&ES.

Leases

Finance Leases – the Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. This also applies where the IFRS reporting arrangements require the Council to determine whether it benefits from the exclusive use of property, plant or equipment within any of its contract arrangements with third parties. If the Council decides that this is the case it has to decide whether the arrangement is to be considered a lease in accordance with International Financial Reporting Interpretations Committee (IFRIC) 12. The Council has determined that the contract for provision of service vehicles falls within these requirements and the costs associated with this are reported as part of the notes to the Core Financial Statements.

Operating Leases – leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease on an accruals basis, generally meaning that rentals are charged when they become payable.

Long-Term Liabilities

The portion of any long-term liabilities due to be settled within 12 months after the Balance Sheet date are included within current liabilities.

Material Items of Income and Expense

Material items of income and expense are to be shown separately on the face of the CI&ES. For this purpose an item is judged to be material if in excess of £0.5m.

Non-Current Assets – Property, Plant and Equipment (PPE)

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as PPE. Assets which are not being used to deliver services, but which do not meet the criteria to be classified as either Investment properties or non-current assets Held for Sale assets, are accommodated in the Surplus Assets class of PPE.

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

The Council operates a de-minimus level of £10,000 for non-current assets. Any expenditure below this level is charged to revenue in the year of acquisition.

Each of the PPE asset classifications are revalued periodically in stages on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by The Royal Institution of Chartered Surveyors (RICS), as follows:

- infrastructure, assets under construction and community assets are valued at historic cost, net of

Notes to the Core Financial Statements

depreciation; and

- other land and buildings, vehicles, plant, furniture, equipment, leased and surplus assets are valued at current value.

For assets which are carried in the Balance Sheet at Current Value, the measurements reflect the economic environment prevailing for the service or function the asset is supporting at the reporting date. The Current Value measurement bases include:

- Existing Use Value defined in accordance with RICS Valuation – Professional Standards (RICS, January 2014) for assets providing service potential to the authority where an active market exists;
- Depreciated Replacement Cost, for assets where there is no market and/or the asset is specialised; and
- Fair Value, for surplus assets not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or non-current assets held for sale.

The value of any surplus property is measured at its fair value with the purpose being to return the highest possible valuation, the estimated use of the property being taken as that which best supports this highest value (i.e. the valuation is not limited with regard to assuming the current use will continue). Surplus property valuations are based on using pricing information derived from an accessible market with the highest volume and level of activity for property transactions available. The valuer will use one or several measurements and/or factors to determine the value of the property, some of which may be more significant in assessing the valuation than others. Examples of such inputs into the valuation process are size, current market rental and sale values, location, condition and other relevant information for assets in the local authority area. Many of these inputs are observable, e.g. they can be seen, measured or found from existing data and records. Other inputs however may not be observable, e.g. an input based solely on the judgement of the valuer or where data is not available and assumptions are made. Each input has a level of significance towards determining the final valuation. The inputs used in valuations are classified into separate hierarchies, which hierarchies are a guide in assessing the risk of the valuation being more based on subjective interpretation than fact. For building and land valuations, observable inputs are classed as Level 2 and unobservable inputs are classed as Level 3. It is possible to use a mixture of Level 2 and Level 3 inputs, however, it is the significance of the inputs that is the determining factor in what level is applied to the whole valuation and any valuation that uses a Level 3 input that is significant will be classed as Level 3. Level 3 valuations will require more disclosure notes than Level 2 valuations.

The Council's approach to revaluation is to have a rolling programme of revaluations over five years. Assets which have a significant value, are revalued annually even if they are not scheduled to be so according to the five-year programme.

As the Council's principal assets are revalued, any gains arising from revaluation are reflected in the Revaluation Reserve or, where previous losses have occurred, are credited to the CI&ES to the limit of the previous loss. A loss is charged to the Revaluation Reserve to the limit of that fund and thereafter is charged to the CI&ES. The programme of revaluations is continuing on this cyclical basis although material changes to asset valuations will be adjusted in the interim period, as they occur. Where assets are valued at Depreciated Replacement Cost, this has only been undertaken where there is no active market for that asset.

The Council applies the principles of component accounting where an asset has a gross book value in excess of £1m and a residual life of over 25 years. In addition to this, any expenditure on the eligible asset must be in excess of £100,000.

Impairment – assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where impairment losses are identified, they are charged against the Revaluation Reserve up to the amount attributable to each specific asset held in that Reserve. Any excess of this amount is then chargeable to the CI&ES. Any charges to the CI&ES are reversed out to the Capital Adjustment Account via the Movement in Reserves Statement.

Depreciation – depreciation is provided for on all property, plant and equipment assets with a finite useful life (which can be determined at the time of acquisition or revaluation) according to the following policy:

- newly acquired assets are not depreciated in the year of acquisition where this does not have a material effect upon the accounts; and

Notes to the Core Financial Statements

- depreciation is calculated using the straight-line method.

The standard useful lives for each category of asset are as follows:

Asset	Depreciation Methodology
Land	Depreciation is not normally provided for freehold land
Infrastructure assets	20 to 50 years
IT equipment	3 to 7 years depending on the nature of the asset
Non IT furniture and equipment	10 to 20 years
Non-operational buildings	40 to 60 years depending on the individual asset
Operational buildings	Usually 50, although this can vary according to the individual asset
Operational land	30 to 50 years (usually relating to car parks)
Vehicles	Up to 10 years depending on the type of vehicle
Community assets	According to whether it is land, building or equipment as above

Provision for depreciation is made by allocating the cost (or revalued amount) less estimated residual value of the assets, as fairly as possible over their useful lives

Where an asset has major components with different estimated useful lives, these are depreciated separately, but only if the asset has been enhanced recently. If there is a change in the depreciation because of impairment which is material, full year depreciation is charged in the year of impairment.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historic cost. The value of the depreciated revaluation gain is transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals – when an asset is disposed of, the carrying amount of the asset in the Balance Sheet is written off to the CI&ES as part of the gain or loss on disposal. Receipts from disposals are also credited to the CI&ES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Proceeds from disposals and other receipts are categorised as capital receipts whenever possible. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts Reserve. Receipts from disposals are appropriated to the Usable Capital Receipts Reserve from the CI&ES.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the CI&ES. The costs of disposal up to 4% of the capital receipts are met from the sale proceeds; if costs are incurred in years before the capital receipt then the costs are met from the Capital Receipts Reserve with unused capital receipts from other disposals.

Non-Current Assets – Charges to Revenue

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the non-current assets used by the relevant service;
- revaluation and impairment losses, where they are in excess of the sum available in the Revaluation Reserve, are chargeable to the CI&ES; and
- amortisation of intangible non-current assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (normally equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance). Depreciation, impairment losses and amortisation are therefore replaced by revenue provision in the CI&ES by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the principles of the CIPFA Service Reporting Code of Practice 2015/16. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of Corporate and Democratic Core and Non Distributed costs. These two cost categories are accounted for as separate headings in the CI&ES as part of Cost of Services.

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Reserves

The Council maintains general and earmarked reserves, with the latter being set up for a specific purpose, whilst the former are not. No expenditure is charged directly to a reserve, but is charged to the service revenue account within the CI&ES, this is then offset by a reserve appropriation within the Movement in Reserves Statement.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Legislation in England allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The expenditure is charged to the relevant service in the CI&ES and then reversed out through the MIRS.

Value Added Tax (VAT)

VAT is accounted for separately and is included in income and expenditure accounts to the extent that it is not recoverable. The Council's partial exemption status is reviewed on an annual basis.

3. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

For 2015/16 the Council needs to be aware of the following accounting policy changes. These come into effect from the 2016/17 Financial Statements:

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)

Notes to the Core Financial Statements

- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

There are no new standards that have been issued but not yet adopted which, when adopted, are expected to have a material impact on the Council's financial statements.

2016/17 will see the implementation of a change in the Code for accounting for Highways Network Assets (HNA) which are a network of components such as carriageways, footways, bridges, street furniture, etc. However, whilst the Council does own individual components of HNA, such as footways, they are not part of a Council owned network and therefore do not meet the definition of HNA and so these assets will not be recognised as HNA.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Council's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are below:

Item	Uncertainties	Effect if Actual Result Differs from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The current value of Land & Building assets (operational only) as at 31 March 2016 is £43.774m.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for operational buildings would increase by £25,200 should the useful life of each property be reduced by one year.
Fair Value Measurements	There are assets valued at fair value. Where possible, the inputs to these valuations are based on observable data, but where this is not possible, judgement is required in establishing fair values. Information about the valuation techniques and inputs used in determining the fair value of the authority's assets and liabilities is disclosed in the accounting policies. The fair value of assets (surplus and investment) as at 31 March 2016 is £3.691m.	Significant changes in any of the judgements made on fair values could result in a significantly lower or higher fair value measurement for these assets. If the value of the Council's non-operational and investment assets were to reduce by 10% this would result in £0.4m being charged to the CI&ES.
Debtor Arrears (including Housing Benefit Overpayments)	At 31 March 2016 the Council had a gross balance for sundry debtors of £3.4m. A review of significant balances suggested that an impairment for doubtful debts of 53% (£1.8m) was appropriate. However, in the current economic climate it is not certain that this would be sufficient.	If collection rates were to fall the cost of covering the impairment of doubtful debts would require an additional £18,000 to be set aside for every 1% reduction in collection rates.
Business Rate Appeals	As at 31 March 2016 a provision for business rates appeals relating to the Collection Fund has been set aside of £8.1m (the Council's share is £3.2m). Business rates appeals are particularly difficult to forecast and the outcome of appeals and their financial impact on the Council are monitored regularly.	If the number of properties under appeal changes, the provision for appeals would require an additional £81,000 for every 1% increase in total rateable value under appeal.

Pension Assumptions and Uncertainty – The table in note 10 details the effect if the actual result differs from the assumptions.

Notes to the Core Financial Statements

Financial Instruments Market Risk – Note 44 details the effect if the actual result differs from the assumptions.

5. Critical Judgements in Applying Accounting Policies

In applying the accounting policies (note 2), the Council has made the following critical judgements about complex transactions or those involving uncertainty about future events:

- there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision. The Council is satisfied that its financial management procedures are robust and that it has sufficient reserves to mitigate any adverse economic trends;
- business rates – valuation appeals. The changes from April 2013 regarding the retention of business rates give rise to the Council being liable for losses on business rates arising from valuation appeals in respect of 2015/16 and earlier years. The total estimated value for these appeals on 1 April 2016 is £8.1m of which the Council's share is £3.2m; (£5.6m and £2.2m respectively at 1 April 2015); and
- group accounts have not been prepared for the Faversham Swimming Pool Committee or for Opportunities for Sittingbourne on the grounds of materiality. Details are in the note on Group Accounts.

6. Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Head of Finance on 30 June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date have provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted if material to reflect the impact of this information. The financial statements and notes have not been adjusted for any events which took place after 31 March 2016.

7. Authorisation of Accounts for Issue

The Statement of Accounts was authorised for issue by N. Vickers, the Head of Finance on 30 June 2016.

Pay and Pensions

8. Officers' Remuneration and Termination Benefits

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more, in bands of £5,000, was:

Remuneration Band	2015/16 Number of Employees	2014/15 Number of Employees
£50,000 - £54,999	14	13
£55,000 - £59,999	3	3
£60,000 - £64,999	0	1
£65,000 - £69,999	1	0
£75,000 - £79,999	5	5
£90,000 - £94,999	0	1
£95,000 - £99,999	1	0
£145,000 - £150,000	1	1
Total	25	24

These remuneration bands include senior employees – this has been applied consistently to both years. Remuneration comprises:

- all sums paid to or receivable by an employee including non-taxable termination payments, redundancy pay and pay in lieu of notice. In 2015/16 one employee is included in the above table as a result of this;
- expense allowances chargeable to tax i.e. the profit element of car allowances; and,
- the monetary value of any other benefits.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Notes to the Core Financial Statements

Exit Package Cost Band (Including Special Payments)	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Exit Packages by Cost Band		Total Cost of Exit Packages in Each Band £	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
£0 – £20,000	6	5	0	0	6	5	17,100	52,000
£20,001– £40,000	2	0	0	0	2	0	63,700	0
£40,001- £60,001	0	1	0	0	0	1	0	47,100
Total	8	6	0	0	8	6	80,800	99,100
Total paid to employees							45,000	87,800
Total paid to KCC for contracted payments for pension scheme							35,800	11,300
Total							80,800	99,100

In 2014/15, £32,700 was paid by the Council for legal and planning Mid Kent shared service staff exit packages not employed by the Council as per the shared services contracts. These costs are included in the CI&ES for 2014/15.

a) Disclosure of remuneration for senior employees whose salary is £150,000, or more per year.

(a) Post holder Information (Post title and name)	Point	2015/16 Salary, Fees & Allowances £'000	2015/16 Pension Contributions £'000	2015/16 Total Remuneration £'000	2014/15 Total Remuneration £'000
Chief Executive Mr Abdool Kara	1	151	47	198	195

Point 1: Includes Returning Officer fees for Parliamentary Elections.

b) Senior Officers whose emoluments/salary is between £50,000 and £150,000 per year.

(b) Post holder Information (Post title)	Point	2015/16 Salary, Fees & Allowances £'000	2015/16 Pension Contributions £'000	2015/16 Total Remuneration £'000	2014/15 Total Remuneration £'000
Director of Corporate Services	1	98	31	129	125
Head of Legal Services		79	25	104	102
Director of Regeneration	1/2	38	12	50	75
Director of Regeneration	3	38	12	50	0
Head of Service Delivery	4	0	0	0	47
Head of Development Services		78	25	103	101
Head of Economic Development & Cultural Services		78	25	103	101
Head of Commissioning & Customer Contact		79	25	104	103
Policy & Performance Manager	1	54	17	71	70
Head of Housing Services		78	25	103	101
Chief Executive Thames Gateway Kent Partnership		53	17	70	84
Head of Audit Partnership	5	0	0	0	0
Head of Human Resources (HR) Partnership	6	0	0	0	0
Head of Finance	7	0	0	0	0
Total		673	214	887	909

Point 1: Includes election fees for Parliamentary Elections.

Point 2: Post holder worked part time in 2015/16 and left October 2015

Point 3: Post holder started November 2015

Point 4: Post holder left March 2015

Notes to the Core Financial Statements

Point 5: The Head of Audit Partnership. Disclosure covering this post will be made by Maidstone Borough Council.

Point 6: The Head of HR is shared with Maidstone Borough Council. Disclosure covering this post will be made by Maidstone Borough Council.

Point 7: The Head of Finance works across both Swale and KCC. Disclosure covering this post will be made by KCC.

More details on the cost of shared services can be seen on note 12.

9. Members' Allowances

	2015/16 £'000	2014/15 £'000
Basic allowance	226	220
Special responsibility allowance	135	133
Members travel, subsistence and IT allowance	28	27
Total	389	380

The Members' Allowances Scheme can be inspected on the Council website <http://www.swale.gov.uk/members-allowances/> or during normal office hours at the Council offices, Swale House, East Street, Sittingbourne ME10 3HT.

10. Defined Benefit Pension Scheme

a) Nature of Benefits of Defined Benefit Pension Schemes.

The Council is a member of the LGPS which is a national scheme that is administered locally on its behalf by KCC – all employees have the right to join the scheme. This is a funded defined benefit scheme, so that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions' liabilities with investment assets. The fund provides index linked pensions and other retirement benefits based upon employees' pay and length of service. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. Employee contribution rates are set by Government and range from 5.5% to 12.5%. The fund actuary, Barnett Waddingham, sets the employer contribution rate.

b) Regulatory Framework of Defined Benefit Pension Schemes

The KCC pension scheme is operated under the regulatory framework for the LGPS and the governance of the scheme is the responsibility of the Superannuation Committee of KCC. This committee is responsible for setting investment strategy, appointing professional fund managers, carrying out regular reviews, monitoring of investments, monitoring the administration of the pension scheme and determining pension fund policy with regard to employer admission arrangements. The committee consists of 12 members with voting rights (nine from KCC and three from district councils) and five other members without voting rights. Policy is determined in accordance with the Pensions Fund Regulations.

c) Risks of Defined Benefit Pension Schemes

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

d) Other Factors Affecting Pension Payments

The Council has arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

e) Revenue Transactions Relating to Retirement Benefits

The costs of retirement benefits are recognised in the Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be

Notes to the Core Financial Statements

made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the CI&ES and General Fund Balance via the Movement in Reserves Statement:

	2015/16 £'000	2014/15 £'000
Comprehensive Income & Expenditure Statement (CI&ES)		
Cost of Services comprising:		
Current service cost	2,310	1,739
Past service cost	74	180
Administration expenses	44	43
Net interest on the net defined benefit liability	2,066	2,228
Total Retirement Benefits Charged to the (Surplus)/Deficit on the Provision of Services	4,494	4,190
Other Retirement Benefits Charged to Other Comprehensive Income and Expenditure:		
Return on plan assets in excess of interest	1,394	(3,883)
Change in financial assumptions	(8,970)	14,528
Experience (gain)/loss on defined benefit obligation	75	(124)
Total Re-measurements Recognised in Other Comprehensive Income and Expenditure	(7,501)	10,521
Total Retirement Benefits Charged to the CI&ES	(3,007)	14,711
Movement in Reserves Statement		
Reduction of charges made to the (surplus)/deficit on the Provision of Services for retirement benefits to equal actual payments in accordance with the Code	(1,881)	(1,590)
Employers' Contributions Payable to the Scheme	2,733	2,600
Actual Return on Scheme Assets less Interest	(1,394)	3,883

f) Pension Assets and Liabilities Recognised in the Balance Sheet

The amounts included in the Balance Sheet arising from the Council's obligation in respect of its defined benefits plans is as follows:

	2015/16 £'000	2014/15 £'000
Present value of the defined benefit obligation	118,348	123,863
Fair value of plan assets	(63,219)	(63,177)
Sub total	55,129	60,686
Present value of unfunded obligation	3,168	3,351
Net liability in Balance Sheet	58,297	64,037

g) Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets and Liabilities (Defined Benefit Obligation)

The Pensions Reserve figure in the Balance Sheet consists of the total assets plus liabilities detailed below:

Reconciliation of present value of the scheme liabilities	2015/16 £'000	2014/15 £'000
Opening balance as at 1 April – defined benefit obligation	(127,214)	(109,715)
Current service cost	(2,310)	(1,739)
Interest cost	(4,144)	(4,754)
Contributions by scheme participants	(540)	(501)
Changes in financial assumptions	8,970	(14,528)
Past service costs	(74)	(180)

Notes to the Core Financial Statements

Reconciliation of present value of the scheme liabilities	2015/16 £'000	2014/15 £'000
Experience loss on defined benefit obligation	(75)	124
Benefits paid including unfunded pension payments	3,871	4,079
Closing balance at as 31 March – defined benefit obligation	(121,516)	(127,214)

Reconciliation of fair value of the scheme assets	2015/16 £'000	2014/15 £'000
Opening balance as at 1 April – fair value of scheme assets	63,177	57,789
Interest on assets	2,078	2,526
Return on assets less interest	(1,394)	3,883
Administration expenses	(44)	(43)
Employer contributions	2,733	2,600
Contributions by scheme participants	540	501
Benefits paid including unfunded pension payments	(3,871)	(4,079)
Closing balance as at 31 March – fair value of scheme assets	63,219	63,177

h) Pension Scheme Assets

The Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2016		31 March 2015	
	£'000	%	£'000	%
Equity investments	42,190	67	43,247	69
Gilts	560	1	662	1
Bonds	6,947	11	7,039	11
Property	9,190	15	7,861	12
Cash	1,583	2	1,624	3
Target return portfolio	2,749	4	2,744	4
Total	63,219	100	63,177	100

Asset Category	31 March 2016				31 March 2015			
	Quoted Prices in Active Markets £'000	Quoted Prices not in Active Markets £'000	Total £'000	% of Total Assets	Quoted Prices in Active Markets £'000	Quoted Prices not in Active Markets £'000	Total £'000	% of Total Assets
Equity Securities (All UK unless stated)								
Consumer	6,906	0	6,906	10.9%	6,771	0	6,771	10.7%
Manufacturing	4,182	0	4,182	6.6%	3,607	0	3,607	5.7%
Materials, energy and utilities	4,148	0	4,148	6.6%	3,101	0	3,101	4.9%
Financial services	4,241	0	4,241	6.7%	6,835	0	6,835	10.8%
Health and care	2,144	0	2,144	3.4%	1,709	0	1,709	2.7%
Information technology	2,698	0	2,698	4.3%	2,278	0	2,278	3.6%
Other	16,363	0	16,363	25.9%	17,655	0	17,655	28.0%
Private equity/ infrastructure (overseas)	0	1,508	1,508	2.4%	0	1,266	1,266	2.0%
Corporate Bonds								
UK	3,454	0	3,454	5.5%	3,734	0	3,734	5.9%
Overseas	3,493	0	3,493	5.5%	3,354	0	3,354	5.3%
Overseas fixed interest Government securities	560	0	560	0.9%	633	0	633	1.0%

Notes to the Core Financial Statements

Asset Category	31 March 2016				31 March 2015			
	Quoted Prices in Active Markets £'000	Quoted Prices not in Active Markets £'000	Total £'000	% of Total Assets	Quoted Prices in Active Markets £'000	Quoted Prices not in Active Markets £'000	Total £'000	% of Total Assets
Property								
Retail	0	3,315	3,315	5.2%	0	3,038	3,038	4.8%
Offices	0	1,525	1,525	2.4%	0	1,518	1,518	2.4%
Industrial	0	1,217	1,217	1.9%	0	1,076	1,076	1.7%
Other	0	3,133	3,133	5.0%	0	2,278	2,278	3.6%
Others								
Absolute return portfolio	0	2,749	2,749	4.4%	0	2,718	2,718	4.3%
Cash/ temporary investments	0	1,136	1,136	1.7%	0	1,226	1,226	2.0%
Net debtors/ creditors	0	447	447	0.7%	0	380	380	0.6%
TOTALS	48,189	15,030	63,219	100%	49,677	13,500	63,177	100%

i) Basis for Estimating Assets and Liabilities

Estimates of the liability are based on the rolled forward value of the employer's liabilities calculated for the triennial valuation of the scheme as at 31 March 2013, allowing for the different assumptions required under IAS 19.

	31 March 2016	31 March 2015
Mortality assumptions:	Years	Years
Longevity at 65 if retiring today :		
Men	22.9	22.8
Women	25.3	25.2
Longevity at 65 if retiring in 20 years:		
Men	25.2	25.1
Women	27.7	27.6
Rate of inflation (RPI increases)	3.2%	3.2%
Rate of inflation (CPI Increases)	2.3%	2.4%
Rate of increase in salaries	4.1%	4.2%
Rate of increase in pensions	2.3%	2.4%
Rate of discounting scheme liabilities	3.6%	3.3%
Take-up option to convert annual pension into retirement lump sum	50.0%	50.0%

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2016 is estimated to be 1%. The actual return on Fund assets over the year may be different.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Notes to the Core Financial Statements

Uncertainty	Sensitivity Analysis		
	£'000	£'000	£'000
Adjustment to discount rate	0.1%	0.0%	-0.1%
Present value of total obligation	119,402	121,516	123,670
Projected service cost	1,993	2,043	2,094
Adjustment to long term salary increase	0.1%	0.0%	-0.1%
Present value of total obligation	121,777	121,516	121,257
Projected service cost	2,044	2,043	2,042
Adjustment to pension increases and deferred revaluation	0.1%	0.0%	-0.1%
Present value of total obligation	123,434	121,516	119,633
Projected service cost	2,094	2,043	1,993
Adjustment to life expectancy assumptions	+1 Year	None	-1 Year
Present value of total obligation	125,287	121,516	117,863
Projected service cost	2,095	2,043	1,992

j) Funding and Investment Strategy

KCC as administering authority for the Kent Pension Fund maintains a Funding and Investment Strategy as required by the pensions and (where relevant) investment regulations. The funding objectives are to ensure the long-term solvency of the Fund, ensure that sufficient funds are available to meet all benefits as they fall due for payment and enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to taxpayers. The aim of its investment strategy is to minimise the risk of an overall reduction in the Fund's value and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Funding and Investment Strategy is reviewed annually or more frequently if necessary.

k) Impact of Pension Scheme on Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. Funding levels are monitored on an annual basis. The Fund is valued once every three years and the latest valuation was at 31 March 2013 which disclosed a net deficit of £24.2m i.e. projected liabilities exceed assets and the change in contribution rates as a result of that valuation took effect from 1 April 2014. All local authority funds are in deficit and all local authority employers in the Kent Fund are in deficit. The employer's contribution has been agreed with the Actuary and is based on the aim of eliminating the deficit over 18 years.

The LGPS is a defined benefit salary scheme where the retirement benefits are determined independently from investments of the scheme, and employers have obligations to make contributions where assets are insufficient to meet employee benefits. The LGPS is now a career average scheme for benefits built up from 1 April 2014 meaning that the employer and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Policy is determined in accordance with the LGPS Regulations.

The total contributions expected to be made to the LGPS by the Council in 2016/17 is £2.043m.

The weighted average duration of the defined benefit obligation for scheme members remains at 18 years for 2015/16 (2014/15, 18 years).

Notes to the Core Financial Statements

Day to Day Spending - Revenue

11. Segmental Reporting – Amounts Reported for Resource Allocation Decisions

The income and expenditure of the Council's departments recorded in the monitoring reports for the year is below. This reconciliation shows how the figures in the analysis of departments' income and expenditure relate to the Cost of Services and the Surplus or Deficit on the Provision of Services included in the CI&ES.

	2015/16					2014/15
	Staff Costs £'000	Other Service Expenses £'000	Government Grants £'000	Fees, Charges & Service Income £'000	Total £'000	Restated Net Expenditure £'000
Commissioning & Customer Contact	1,387	7,864	(11)	(4,458)	4,782	5,131
Economy & Communities	1,138	1,269	(206)	(216)	1,985	1,930
Resident Services	2,767	55,984	(56,278)	(1,834)	639	1,405
Planning	1,295	644	0	(1,028)	911	704
Environmental Health	400	108	(13)	(61)	434	398
Support Services	2,852	3,133	(38)	(1,726)	4,221	4,041
Strategic Management and Policy	1,027	379	(272)	(382)	752	669
Other Services	1,735	1,006	(175)	(322)	2,244	1,802
Total Service Expenditure	12,601	70,387	(56,993)	(10,027)	15,968	16,080
Revenue rollover specific grants	0	0	99	0	99	174
Net revenue rollover non-specific grants and transfer to Business Rates Volatility Reserve	0	0	1,669	0	1,669	553
Net Expenditure	12,601	70,387	(55,225)	(10,027)	17,736	16,807
Financed by:						
Government grants	0	0	(11,617)	0	(11,617)	(10,557)
Council tax	0	0	0	(7,961)	(7,961)	(7,749)
Net Service Expenditure Reported to Management	12,601	70,387	(66,842)	(17,988)	(1,842)	(1,499)
Net revenue rollover – non-specific grants	0	0	(76)	0	(76)	(362)
Net Service Expenditure					(1,918)	(1,861)
Amounts in the CI&ES not reported in the departmental monitoring reports					1,636	1,356
Amounts in the departmental monitoring reports not in the CI&ES					18,592	15,063
Cost of Services in CI&ES					18,310	14,558
Corporate Amounts					(15,248)	(16,563)
(Surplus)/Deficit on the Provision of Services					3,062	(2,005)

The 2014/15 figures have been restated to conform with the change in format.

12. Shared Services

The Council participates in a number of shared service arrangements which are included in the CI&ES but which are detailed below:

	2015/16 Expenditure Other £'000	2015/16 Expenditure on Partners £'000	2015/16 Income Other £'000	2015/16 Income from Partners £'000	2015/16 Net Expenditure £'000	2014/15 Net Expenditure £'000
Planning Support	5	236	0	0	241	352
Local Land Charges	20	83	(359)	0	(256)	(30)
Environmental Health	587	1	(50)	(12)	526	478

Notes to the Core Financial Statements

	2015/16 Expenditure Other £'000	2015/16 Expenditure on Partners £'000	2015/16 Income Other £'000	2015/16 Income from Partners £'000	2015/16 Net Expenditure £'000	2014/15 Net Expenditure £'000
Information Technology	762	431	0	0	1,193	1,054
Human Resources	126	248	(7)	0	367	382
Internal Audit	0	140	0	0	140	155
Legal	1,548	21	(44)	(1,021)	504	450
Parking	1,125	55	(2,416)	(20)	(1,256)	(1,173)
Building Control	0	78	0	0	78	82
Fraud Investigation	80	18	0	0	98	0
Debt Recovery	0	14	0	0	14	0
Total	4,253	1,325	(2,876)	(1,053)	1,649	1,750

In 2015/16 it was unanimously decided by Swale, Maidstone and Tunbridge Wells Borough Councils that Tunbridge Wells would withdraw from the Planning Support partnership, and that Maidstone and Swale would continue to deliver a shared service based at Maidstone. It was also unanimously agreed that all three councils would continue the shared Local Land Charges service, based at Maidstone. These decisions will be implemented in 2016/17.

In 2015/16 the Council contributed £63,330 towards shared IT capital expenditure (£12,473 in 2014/15). The Council has accrued its funding share to Maidstone as revenue expenditure funded from capital under statute.

13. Grant Income

Grants Credited to Taxation and Non Specific Grant Income

These are detailed in the CI&ES.

Grants Credited to Services

Grant Area	Provider	2015/16 £'000	2014/15 £'000
Housing benefit grant	Department for Work & Pensions	(54,522)	(55,155)
Revenue expenditure funded by capital under statute	Various Contributors	(906)	(952)
Housing benefit admin subsidy	Department for Work & Pensions	(663)	(727)
Communities living sustainability	Big Lottery Fund	(272)	(202)
Discretionary housing payment	Department for Work & Pensions	(244)	(346)
Localising council tax support administration subsidy grant	Department for Communities and Local Government	(179)	(194)
Open spaces and play areas – commuted sums	Various Contributors	(175)	(384)
Troubled families grant	Kent County Council	(92)	(119)
Localising council tax – new burdens funding	Department for Communities and Local Government	(35)	(100)
Local Land Charges New Burdens Grant	Department for Communities and Local Government	(137)	0
Other grants	Various Contributors	(554)	(657)
Total Grant Income Credited to Cost of Services		(57,779)	(58,836)

Revenue Grants – Receipts in Advance

The revenue grants receipts in advance for 2015/16 were £98,634 (£174,840 in 2014/15).

Notes to the Core Financial Statements

Capital Grants - Receipts in Advance

Please see note 38 for a breakdown of Capital Grants Receipts in Advance.

14. External Audit Fees

The Council's auditors are Grant Thornton UK LLP who are one of the world's leading providers of independent assurance. Included in 2015/16 is £15,000 for the cost of the certification of grant claims for 2014/15.

	2015/16 £'000	2014/15 £'000
Fees payable for external audit service	61	80
Fees payable for the certification of grant claims and returns	36	38
Audit Commission refund for prior years	0	(7)
Fees for other services: Investors in people assessment	9	0
Total	106	111

15. Private Finance Initiative

The Council belongs to a partnership with KCC and other Kent District Councils, to deliver new homes for vulnerable people in Kent using £72m approved Private Finance Initiative credits. KCC is procuring and managing the project on behalf of the partners, so there are no further accounting implications for the Council.

16. Gains and Losses on Disposal of Non-Current Assets

The Council has a Community Asset Transfer (CAT) policy whereby the Council will agree to transfer land or buildings into the ownership or management of a Voluntary or Community Sector organisation. Such transfers are often facilitated by a long-term lease of the assets. Therefore, to reflect the lease and the diminished immediate value of the asset to the council, assets subject to such a transfer have been removed from the Asset Register and the removal of their value is recorded under this note as a loss. In 2015/16 the value of properties subject to a CAT and removed from the Asset Register was £2,882,000, the largest of these being the Faversham Gymnastics and Activity Centre, value £2,052,000. The gross loss of other properties was £98,000. Net losses of £2,623,000 were incurred for 2015/16 (net loss of £436,200 in 2014/15). Gains and losses on investment properties are shown under Financing and Investment Income and Expenditure in the CI&ES.

Council Resources - Reserves

17. Usable Capital Receipts Reserve

This reserve holds the proceeds from the disposal of land and other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied at year-end.

	2015/16 £'000	2014/15 £'000
Balance as at 1 April	(911)	(1,331)
Capital receipts in year from sale of assets	(259)	0
Capital receipts in year from repayment of grant & mortgages	(98)	(102)
Capital receipts applied during the year – financing fixed assets	63	268
Capital receipts applied during the year – financing REFCUS	63	92
Capital receipts applied during the year – financing loans	0	168
Other movements	15	(6)
Balance as at 31 March	(1,127)	(911)

18. Capital Grants Unapplied Account

This reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Notes to the Core Financial Statements

19. Revenue Earmarked Reserves

This note sets out the amounts set aside from the General Fund to earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2015/16.

	Balance 31 March 2014 £'000	Transfers out 2014/15 £'000	Transfers in 2014/15 £'000	Balance 31 March 2015 £'000	Transfers out 2015/16 £'000	Transfers in 2015/16 £'000	Balance 31 March 2016 £'000
General Reserve	(3,291)	204	0	(3,087)	136	(137)	(3,088)
Business Rates Volatility	0	49	(1,282)	(1,233)	42	(1,458)	(2,649)
Performance	(905)	158	0	(747)	210	0	(537)
Building Maintenance	(519)	4	(112)	(627)	0	(191)	(818)
Regeneration	(355)	299	(254)	(310)	201	(253)	(362)
Business Rates Pool (Economic)	0	0	0	0	0	(328)	(328)
Repairs & Renewals	(225)	46	(98)	(277)	81	(93)	(289)
Housing Benefits	(428)	93	(53)	(388)	111	0	(277)
Commuted Sums	0	0	0	0	0	(259)	(259)
Local Loan Fund	(250)	0	0	(250)	0	0	(250)
Preceptors Council Tax Support	0	0	(125)	(125)	0	(125)	(250)
Housing	(238)	57	0	(181)	5	(22)	(198)
Transformation	(252)	111	(52)	(193)	81	(100)	(212)
Local Development Framework	(171)	0	(62)	(233)	163	0	(70)
Stay Put Grants	(146)	0	(12)	(158)	6	0	(152)
Emergency Accommodation	0	0	0	0	183	(218)	(35)
Development Control	(72)	39	(89)	(122)	208	(86)	0
Miscellaneous	(712)	509	(579)	(782)	424	(922)	(1,280)
Total	(7,564)	1,569	(2,718)	(8,713)	1,851	(4,192)	(11,054)

General Reserve	Its use is subject to the approval of members.
Business Rates Volatility	To assist the Council in managing the volatility of business rate income as a result of business rate localisation.
Performance	To improve overall performance. Officers are invited to submit a bidding list of proposals.
Building Maintenance	To meet items of backlog building maintenance as identified in the Council's medium term maintenance plan as well as urgent or unexpected items. Each year the reserve is topped up by any underspend on the building maintenance revenue budget.
Regeneration	To fund regeneration projects in the Borough. Officers can submit bids to this reserve.
Business Rates Pool (Economic)	This fund has been established as a result of the Council joining the Kent Business Rates Pool. It is to fund economic development as agreed by the Council and KCC.
Repairs & Renewals	Regular contributions are made to this fund from the General Fund. Large items of expenditure are then charged to the service and funded from this reserve.
Housing Benefits	Savings made in the Benefits section, including unspent grants were transferred to this reserve. This was used to cover the shortfall in grant in 2015/16 and will continue to be used to offset the deficit in future years.
Commuted Sums	Set up to meet Grant Thornton UK LLP recommendations on accounting treatment. This reserve will be used to fund play area and open space maintenance in future years.

Notes to the Core Financial Statements

Local Loan Fund	To support voluntary, community or not-for-profit organisations and town and parish councils in Swale to enable management and delivery of local services and facilities.
Preceptors Council Tax Support	Paid by KCC, Police and Fire to reflect the costs of council tax support localisation.
Housing	This is made up of a number of housing reserves, including Rent Deposit Scheme Bond Reserve, Empty Property Reserve and the Supporting People Reserve. All these reserves will help to fund the homelessness service in future years.
Transformation	To meet the cost of releasing the Pension Fund benefits to staff who have taken early retirement and to fund all other redundancy costs.
Local Development Framework	Any underspend or overspend on this service on the General Fund will be transferred to this fund and used solely to fund Local Development Framework associated work.
Stay Put Grants	Ring-fenced external funding for health grants and supporting people grants.
Emergency Accommodation	Set up to meet the cost of a new homeless property in Sheerness. The reserve has been topped up by unused funds from the Sittingbourne homeless property. It will continue to be used to fund any costs of maintaining our three emergency accommodation houses.
Development Control	This reserve was used in 2015/16 to meet the cost of additional agency staff and consultants to help clear the backlog of major planning applications.
Miscellaneous	This is made up of the earmarked reserves that are less than £100,000. A full list of these reserves is available upon request.

20. Revaluation Reserve

This contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, Heritage and Intangible assets.

The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before that date were consolidated into the balance on the Capital Adjustment Account.

	2015/16 £'000	2014/15 £'000
Balance as at 1 April	(11,915)	(8,572)
Upward revaluation of assets	(6,837)	(3,938)
Downward revaluation of assets and impairment losses not charged to the (surplus)/deficit on the provision of services	289	268
Write down re gains derived from depreciation differences, between historic costs and current value.	254	327
Write down of accumulated gains on disposed assets	1,487	0
Write down frozen balance following Investment asset reclassified to PPE Land and Building asset	10	0
Balance as at 31 March	(16,712)	(11,915)

21. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. It is debited with the cost of acquisition/enhancement as depreciation, impairment losses and amortisations are charged to the CI&ES. It is credited with the amounts set aside to finance the costs of acquisition/enhancement. The account also contains accumulated gains/losses on assets pre-dating 1 April 2007.

Notes to the Core Financial Statements

	2015/16 £'000	2014/15 £'000
Balance as at 1 April	(38,292)	(35,690)
Reversal of items relating to capital expenditure debited or credited to the CI&ES:		
Depreciation of tangible non-current assets	1,234	1,536
Amortisation of intangible assets	24	43
Write down Revenue Expenditure Funded by Capital Under Statute (REFCUS)	1,123	1,133
Revaluation Losses – impairment to CI&ES – other assets	568	29
Revaluation Losses – impairment to CI&ES – investment assets	323	168
Revaluation – reversal of prior losses or impairments – other assets	(112)	(2,903)
Revaluation - reversal of prior losses or impairments – investment assets	(324)	0
Revaluation (gain) to CI&ES – investment assets	(218)	(301)
Disposal and Derecognition of assets – write out of notional gross book value	3,669	632
Disposal and Derecognition of assets – write out of accumulated depreciation	(688)	(94)
Write down of Revaluation Reserve:		
Write down of Revaluation Reserve depreciation (gains)	(254)	(327)
Write down of Revaluation Reserve accumulated gains on disposed assets	(1,487)	0
Write down of frozen Revaluation Reserve balance following investment asset reclassified to PPE Land and Building asset	(10)	0
Capital financing applied in the year:		
Capital financing – capital receipts	(126)	(528)
Capital financing – capital reserves	(349)	(421)
Capital financing – Government grants and external contributions	(1,478)	(1,270)
Minimum revenue provision	(336)	(369)
Write down of financing long-term debtors	66	81
Adjustment to prior year	0	(11)
Balance as at 31 March	(36,667)	(38,292)

22. Collection Fund Adjustment Account

This manages the differences arising from the recognition of council tax and business rates income in the CI&ES as it falls due from council taxpayers and business ratepayers, compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The balance effectively shows the Council's share of the overall Collection Fund deficit and the surplus for renewable energy income retained by the Council. The total movement in 2015/16 was a deficit of £878,000 (£12,000 surplus in 2014/15).

23. Available for Sale Reserve

The movement in year represents the change in fair value of the Council's investment in the CCLA Local Authorities' Mutual Investment Trust (LAMIT) Property Fund. The fair value is based on public price quotations in an active market for this financial instrument and without this investment counting as capital expenditure.

24. Accumulated Absences Account

This absorbs the differences that would otherwise arise on the General Fund from accruing for compensated absences earned but not taken in the year, e.g. annual leave due carried forward at 31 March 2016. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the Account. The movement on this reserve in 2015/16 was a decrease of £20,000 (£22,000 increase in 2014/15).

25. Pensions Reserve

This absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CI&ES as the benefits are earned by employees. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve

Notes to the Core Financial Statements

therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Details on the movement in 2015/16 is shown on note 10 under Pension Assets and Liabilities Recognised in the Balance Sheet.

Long Term Spending - Capital

26. Property, Plant and Equipment Assets

Classification	Operational Assets					Non-Operational Assets		Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Comm-unity £'000	Leased £'000	Assets Under Construc-tion £'000	Surplus Land & Buildings £'000	
Cost or Valuation								
At 1 April 2014	32,398	6,101	4,105	3,426	1,146	0	4,816	51,992
Additions – capital spend	404	298	0	81	107	38	0	928
Revaluations	4,289	0	0	0	0	0	298	4,587
Derecognition	(125)	(62)	(128)	(246)	(8)	(63)	0	(632)
Reclassifications	(105)	0	(1,903)	1,919	0	63	400	374
At 31 March 2015	36,861	6,337	2,074	5,180	1,245	38	5,514	57,249
Accumulated Depreciation and Impairments								
At 1 April 2014	(1,555)	(4,740)	(715)	(208)	(1,002)	0	(240)	(8,460)
Depreciation	(872)	(333)	(56)	(53)	(146)	0	(76)	(1,536)
Impairment losses/(reversals)	1,796	0	0	0	0	0	157	1,953
Derecognition	19	19	2	42	8	4	0	94
Reclassifications	6	0	130	(132)	0	(4)	0	0
At 31 March 2015	(606)	(5,054)	(639)	(351)	(1,140)	0	(159)	(7,949)
Net Book Value at 31 March 2015	36,255	1,283	1,435	4,829	105	38	5,355	49,300
Net Book Value at 31 March 2014	30,843	1,361	3,390	3,218	144	0	4,576	43,532

Classification	Operational Assets					Non-Operational Assets		Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Comm-unity £'000	Leased £'000	Assets Under Construc-tion £'000	Surplus Land & Buildings £'000	
Cost or Valuation								
At 1 April 2015	36,861	6,337	2,074	5,180	1,245	38	5,514	57,249
Additions – capital spend	766	250	0	41	0	67	0	1,124
Revaluations	5,824	0	0	0	0	0	62	5,886
Derecognition	(2,627)	(404)	0	0	(4)	0	(403)	(3,438)
Reclassifications	3,868	472	0	47	0	(31)	(4,557)	(201)
At 31 March 2016	44,692	6,655	2,074	5,268	1,241	74	616	60,620

Notes to the Core Financial Statements

Classification	Operational Assets					Non-Operational Assets		Total Property, Plant & Equipment Assets £'000
	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Comm-unity £'000	Leased £'000	Assets Under Construc-tion £'000	Surplus Land & Buildings £'000	
Accumulated Depreciation and Impairments								
At 1 April 2015	(606)	(5,054)	(639)	(351)	(1,140)	0	(159)	(7,949)
Depreciation	(795)	(302)	(37)	(63)	(24)	0	(13)	(1,234)
Impairment losses/(reversals)	194	0	0	0	0	0	12	206
Derecognition	94	404	0	0	4	0	53	555
Reclassifications	195	(302)	0	0	0	0	107	0
At 31 March 2016	(918)	(5,254)	(676)	(414)	(1,160)	0	0	(8,422)
Net Book Value at 31 March 2016	43,774	1,401	1,398	4,854	81	74	616	52,198
Net Book Value at 31 March 2015	36,255	1,283	1,435	4,829	105	38	5,355	49,300

Surplus Land & Buildings

Following a review of the use made of the properties and with reference to the Council's Corporate Plan, the Council has reclassified Surplus assets with a net book value of £4,450,000 of which, £4,239,000 to Land and Buildings, £114,000 to Investment Properties and £97,000 to Assets Held for Sale.

All of the Council's remaining surplus assets have been revalued this year and the inputs used to measure their value have been assessed as being within hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels).

This confirms that no significant unobservable inputs have been used in the valuation of the Council's surplus assets and that they are all valued to their highest and best value.

27. Non-Current Asset Valuation

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment which is required to be measured at fair value is revalued at least every five years. The freehold and leasehold properties which comprise the Council's property portfolio have, for this and past years, been valued by Wilks, Head and Eve Chartered Surveyors and by the Valuation Office Agency.

In 2015/16 Wilks, Head and Eve valued total assets to a gross value of £41,602,351, including Investment properties. Valuations dated 1 January 2016 totalled £38,526,959 and, as at 31 March 2016, £3,075,392.

An impairment review was also carried out by Wilks, Head and Eve as part of the valuation contract. The impairment review considered if there were material differences to the valuations performed at 1 January 2016 which would require these to be updated at 31 March 2016, but the result was that there were no material changes to the valuations advised. Mr K Parker, a member of the Royal Institution of Chartered Surveyors (MRICS) and an employee of the Council, reviewed both tasks.

Wilks, Head & Eve is a long established independent partnership of Chartered Surveyors and Town Planners providing a full range of property services to clients in both the public and private sectors. The Valuation Office Agency is an executive agency which provides statutory and non-statutory property valuation services.

The table below shows the progress of the rolling programme of revaluation of the Council's non-current assets:

Notes to the Core Financial Statements

Date Valued (or Acquired) at or up to:	Land & Buildings £'000	Vehicles & Equipment £'000	Infra-structure £'000	Community £'000	Leased £'000	Assets Under Construction £'000	Surplus Land & Buildings £'000	Total Property, Plant & Equipment Assets £'000
Historic cost	0	0	1,398	4,854	0	74	0	6,326
Previous years	0	727	0	0	16	0	0	743
01/04/2011	806	16	0	0	0	0	0	822
01/04/2012	1,235	0	0	0	65	0	0	1,300
01/04/2013	1,198	163	0	0	0	0	0	1,361
31/03/2014	24	0	0	0	0	0	0	24
01/04/2014	884	0	0	0	0	0	0	884
31/03/2015	1,757	245	0	0	0	0	0	2,002
01/01/2016	37,696	250	0	0	0	0	616	38,562
22/01/2016	174	0	0	0	0	0	0	174
Net Book Value at 31 March 2016	43,774	1,401	1,398	4,854	81	74	616	52,198

The Council has undertaken a review of all assets that were valued before 2015/16 to ensure that their carrying value does not differ materially from current value.

28. Impairment Losses

The Code requires disclosure by class of assets of the amounts for losses and impairments, and subsequent reversals, charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income & Expenditure (net total reversals being credited to the Surplus or Deficit). These disclosures are consolidated in notes 26 and 27, reconciling the movement over the year in the asset balances for Property, Plant and Equipment and Investment Properties.

During 2015/16 the Council has recognised a net total loss of £(238,000) in respect of its non-current assets (£3,006,900 reversal of previous losses in 2014/15).

	Property, Plant & Equipment Assets £'000	Investment Assets £'000	2015/16 Total £'000	2014/15 Total £'000
Revaluation – increase recognised in (surplus)/deficit on Provision of Services (reversal prior loss/impairment)	109	5	114	1,723
Depreciation written out to the (surplus)/deficit on Provision of Services (reversal prior loss/impairment)	2	0	2	1,180
Total Reversal Prior Loss/Impairment	111	5	116	2,903
Revaluation – decrease recognised in the (surplus)/deficit on Provision of Services	(648)	(6)	(654)	(197)
Depreciation written out to the (surplus)/deficit on Provision of Services	80	0	80	0
Total Losses and Impairments	(568)	(6)	(574)	(197)
Revaluation – increase recognised in (surplus)/deficit on Provision of Services (gain)	0	220	220	301
Net Total Reversal/(Loss) Credited/(Debited) to (Surplus)/Deficit on Provision of Services	(457)	219	(238)	3,007

The two greatest revaluation reversals of previous losses were against the vacant land at Minster Cliffs and the Sheerness Leisure Centre (roof component), incurring a reversal increase of £28,990 and £18,790 respectively. Eighteen other assets incurred an average reversal increase of £3,540.

Eight assets incurred direct gains totalling £220,220, the greatest gain being £150,010 to the land at Lappel Bank,

Notes to the Core Financial Statements

West Minster.

The greatest reduced valuations were incurred by four assets, Swale House (heating component), Swallows Leisure Centre (lift component), Rose Street Market, Sheerness and the car park at Trinity Road, Sheerness, the losses being £165,910, £143,900, £130,000 and £31,340 respectively. Eighteen other assets incurred reduced valuations, an average reduction of £5,380 per property.

29. Heritage Assets

Reconciliation of the carrying value of Heritage Assets held by the Council:

	War Memorials & Public Statues £'000	Civic Regalia £'000	Historical Items of Cultural Interest £'000	Total £'000
At 1 April 2014	112	356	108	576
Revaluations	0	0	3	3
Balance at 31 March 2015	112	356	111	579
Balance at 31 March 2016	112	356	111	579

30. Investment Properties

The following items of income and expense have been accounted for as Financing and Investment Income and Expenditure in the CI&ES:

	2015/16 £'000	2014/15 £'000
Rental income from investment properties	(205)	(220)
Direct operating expenses arising from investment properties	35	72
Net (Gain)	(170)	(148)

The net gain on revaluation for investment properties in the year was £219,000 (£133,000 gain in 2014/15). No investment properties were sold in 2015/16.

Assets to the value of £114,000 were transferred to investment properties from surplus properties, being the New Road Industrial Estate, phases I and II. Vacant land at Minster Drive, value £11,000, was transferred out of investment properties to operational land and buildings, giving a net reclassification movement to investment properties of £103,000.

All of the Council's investment property portfolio has been assessed as input hierarchy Level 2 for valuation purposes (see accounting policies note for explanation of fair value valuation input levels).

The fair value of investment properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these assets are such that the level of observable inputs are significant with no significant Level 3 inputs used, leading to the properties being categorised as Level 2 in the fair value hierarchy. In estimating the fair value of the authority's investment properties, the highest and best use of the properties has been applied.

31. Revenue Expenditure Funded from Capital under Statute (REFCUS)

REFCUS relates to capital expenditure for which there will be no non-current assets held by the Council (for example, grants paid to external organisations). As there is no continuing benefit derived from this expenditure, it is treated as revenue expenditure and allocated in the CI&ES in the same year that it was incurred.

Grant Area	Provider	Expenditure 2015/16 £'000	Restated Expenditure 2014/15 £'000
Home Renovation Grants	Swale Borough Council	11	183
Home Renovation Grants	Department for Communities & Local Government	854	927

Notes to the Core Financial Statements

Grant Area	Provider	Expenditure 2015/16 £'000	Restated Expenditure 2014/15 £'000
Wylie Court utilities protection	Swale Borough Council	120	0
Shared Information Technology service	Swale Borough Council	63	12
Coastal Monitoring	Environment Agency	41	0
Coast Protection	Swale Borough Council	34	0
Other		0	11
Total		1,123	1,133

The 2014/15 figures have been restated to match the categories shown above.

32. Commitments under Capital Contracts

The contractual commitments at 31 March 2016 totalled £514,330 (£nil in 2014/15).

33. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2015/16 £'000	2014/15 £'000
Opening Capital Financing Requirement	5,106	5,475
Total Capital Investment	2,268	1,988
Add Long-Term Debtors – Loans	41	231
Sources of Finance:		
Capital Receipts (see note 17)	(127)	(528)
Government Grants & External Contributions	(1,478)	(1,270)
Sums set aside from revenue:		
Direct Revenue Funding	(704)	(421)
Minimum Revenue Provision	(336)	(369)
Total Sources of Finance	(2,645)	(2,588)
Closing Capital Financing Requirement	4,770	5,106
Explanation of Movements in Capital Financing Requirement in Year:		
(Reduction) in underlying need to borrow (unsupported by governmental financial assistance)	(313)	(332)
(Reduction) relating to assets acquired under Embedded Leases	(23)	(37)
Total (Decrease) in Capital Financing Requirement	(336)	(369)

The Council's Creditors and Debtors

34. Long-Term Creditors and Receipts in Advance

As consideration for the extension of a current lease of 99 years, the tenants have paid the Council a premium of £60,000. A premium paid on entry into an operating lease must be accounted for as a prepayment of rent. The prepayment is amortised over the lease term in accordance with the pattern of benefits provided. Therefore this premium, being consideration for the extended term of 69 years from 24 March 2070 to 24 June 2139, will start to be amortised in 2070/71 (assuming all current conditions remain unaltered).

Notes to the Core Financial Statements

35. Short-Term Creditors and Receipts in Advance

	31 March 2016 £'000	31 March 2015 £'000
Central Government bodies	(4,156)	(5,450)
Other local authorities	(3,972)	(2,566)
Bodies external to Central Government	(3,149)	(3,851)
Other receipts in advance	(188)	(178)
Total	(11,465)	(12,045)

36. S106 Revenue Receipts in Advance

Section 106 (S106) of the Town and Country Planning Act 1990 and Section 278 of The Highways Act 1980 permits local planning authorities to enter into enforceable 'planning obligations' with landowners and/or developers. Each agreement has a deed setting out its purpose. Each agreement has been examined to determine when assets and liabilities need to be recognised on the Balance Sheet or income should be recognised. These sums represent monies received from developers as part of an agreement to maintain a designated piece of land, typically for leisure/recreation purposes, split between short and long-term use.

37. Deferred Liabilities

Deferred liabilities relate to three items:

- a) an arrangement with the Council's contractor for leisure management who has agreed to provide phased capital expenditure of £1.826m at the leisure centres over the 15-year life of the contract. The Council is committed to make regular monthly payments for 15 years to cover repayment of this sum together with associated financing costs. The sum shown in the Balance Sheet includes the outstanding principal element in respect of capital expenditure both provided and yet to be provided under the contract. The contract is due to end in 2019/20;
- b) a credit sale agreement was taken out for £250,000 in 2009/10 to purchase various equipment for the Swallows Leisure Centre. Under the terms of the agreement, the Council is committed to make regular monthly payments for ten years to cover this sum together with associated financing costs. The sum shown in the Balance Sheet is the outstanding principal element in respect of capital expenditure; and,
- c) the deferred liabilities for embedded leases i.e. finance leases, representing the value of Vehicles, Plant, and Equipment that are deemed to be for the exclusive use of the Council by its grounds maintenance contractors.

	31 March 2016 £'000	31 March 2015 £'000
Due within one year (Short-Term Creditors - bodies external to Central Government)	(179)	(151)
Due after more than one year (Long-Term Liabilities)	(550)	(753)
Total	(729)	(904)

38. Capital Grant Receipts in Advance

The Capital Grants Receipts in Advance account is a creditor account used for grants and contributions where conditions are outstanding. It is used for the funding of future capital expenditure. This includes monies received for S106 purposes (see note 36) to fund new facilities provided as part of an agreement with developers.

	1 April 2015 £'000	Expenditure £'000	Income £'000	31 March 2016 £'000
Disabled facilities grants	0	854	(1,040)	(186)
Other	(220)	90	(115)	(245)
S106 held for third parties	(949)	736	(830)	(1,043)
S106 Capital Funding:				
Housing	(200)	0	0	(200)
Play areas	(277)	0	(271)	(548)
The Meads Community Centre	(317)	410	(103)	(10)
Open spaces	(604)	3	(4)	(605)

Notes to the Core Financial Statements

	1 April 2015 £'000	Expenditure £'000	Income £'000	31 March 2016 £'000
Town centre improvements	(184)	0	0	(184)
Easthall Farm Community Hall	(1,014)	67	0	(947)
Other	(65)	1	0	(64)
Total	(3,830)	2,161	(2,363)	(4,032)

	31 March 2016 £'000	31 March 2015 £'000
Due to spend within one year (Short-Term Liabilities)	(1,972)	(701)
Due to spend in more than one year (Long-Term Liabilities)	(2,060)	(3,129)
Total	(4,032)	(3,830)

In 2015/16, the Council did not repay any S106 grants to developers (£92,300 was repaid in 2014/15).

39. Provisions

In 1992 the Council's previous insurer, Municipal Mutual Insurance (MMI) declared that it would be going into "run off" which is similar to a company going into administration. Control of MMI has now passed to a Scheme Administrator who has implemented a "Scheme of Arrangement". The provision for future claims has been calculated as £83,000 as at 31 March 2016. This sum can be revised in future years as further information becomes available.

A settlement has been reached with a group of Property Search Companies and a provision has been established for the claimants' costs.

The Council has made a provision of £3,238,000 for business rate appeals based on its best estimates of the actual liability as at 31 March 2016. £2,503,100 has been identified as a long-term provision. See Note 52 for further details.

40. Long-Term Debtors – Other

Long-term debtors are those that fall due after a period of at least one year. They include advances to private individuals for refurbishment of their homes including disabled adaptations, car loans to employees, advances to private sector tenants to assist with their housing needs and interest free loans, (classified as 'soft loans'). More details on soft loans, are contained in Financial Instruments note 44, table 2.

	31 March 2016 £'000	31 March 2015 £'000
Housing repair loans	2,162	2,103
Rent deposit scheme – gross debt	188	232
Rent deposit scheme – allowance for bad debts	(151)	(228)
Assisted car purchase loans	256	200
Queenborough Harbour Trust	42	47
Opportunities For Sittingbourne	118	118
Other long term loans	54	39
Total	2,669	2,511

41. Short-Term Debtors and Payments in Advance

	31 March 2016 £'000	31 March 2015 £'000
Central Government bodies	393	218
Other local authorities	944	919
NHS bodies	0	2
Bodies external to general Government	2,287	2,455
Payments in advance	190	255
Total	3,814	3,849

Notes to the Core Financial Statements

42. Cash and Cash Equivalents

	31 March 2016 £'000	31 March 2015 £'000
Cash (overdrawn)/held by the Council	(485)	1,551
Same day (instant) access accounts	6,000	6,000
Money Market Funds	6,376	3,300
Total Cash and Cash Equivalents	11,891	10,851

Leases

43. Leases

Disclosures in Relation to Operating Leases – Council as Lessee

Plant and equipment – as at 31 March 2016 the Council had eleven vehicles on a contract hire-operating lease basis. During 2015/16 the Council commenced leasing three new vehicles including an Electric vehicle. The Council is committed to making payments of £16,000 in 2016/17 and the next two financial years. The commitments are expected to fully expire in 2018/19.

The expenditure charged to the Net Cost of Services in the CI&ES during 2015/16 in relation to these leases was £31,500 (£29,500 in 2014/15).

Disclosures in Relation to Operating Leases – Council as Lessor

The Council holds a number of operating leases with third parties. The following table details the main classifications of usage within the portfolio:

Asset	Rentals Payable 2015/16 £'000	Rentals Payable 2014/15 £'000
Business premises	312	383
Industrial units	106	133
Other	78	73
Total	496	589

The future minimum lease payments receivable under non-cancellable leases in future years are:

	2015/16 £'000	2014/15 £'000
Not later than 1 year	92	201
Later than 1 year and not later than 5 years	39	56
Later than 5 years	365	332
Total	496	589

Disclosures in Relation to Embedded Leases – Council as Lessee

Vehicles used within the grounds maintenance contract are accounted for as 'embedded leases'.

The assets, net of depreciation, are therefore shown within non-current assets and the notional liability within long-term liabilities. The asset value is depreciated over the life of the vehicles equivalent to the calculated notional lease repayment.

The value of the embedded lease assets net of depreciation in 2015/16 was £81,000 (£105,000 in 2014/15).

Financial Instruments

44. Financial Instruments

The use of these notes are primarily for those with whom the Council invests rather than the lay reader and therefore if you require further details please contact the Finance Department directly on finance@swale.gov.uk.

Notes to the Core Financial Statements

a) Financial Instruments – Classifications

A financial instrument is: “Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity”.

b) Financial Instruments – Balances

Financial instruments have a specific definition and exclude some items which are included on the Balance Sheet and therefore the figures below differ from those shown on the Balance Sheet. A reconciliation is available on request to the Finance Department on finance@swale.gov.uk.

Table 1

Financial Liabilities	Long-Term		Current	
	2015/16 £'000	2014/15 £'000	2015/16 £'000	Restated 2014/15 £'000
Trade creditors	0	0	(3,491)	(2,996)
Lease liabilities	(492)	(648)	(155)	(151)
Total Financial Liabilities	(492)	(648)	(3,646)	(3,147)

Table 2

Financial Assets	Long-Term		Current	
	2015/16 £'000	Restated 2014/15 £'000	2015/16 £'000	Restated 2014/15 £'000
Loans and Receivables				
Trade debtors	199	246	689	923
Soft loans	2,162	2,103	0	82
Car loans	256	200	0	0
Mortgages	5	5	0	0
Cash and cash equivalents	0	0	5,515	7,551
Long-term loans	184	175	2	2
Short-term Investments	0	0	12,989	13,000
Available-for-Sale				
Cash and cash equivalents	0	0	6,376	3,300
Bond investment at cost – British Government Stocks	0	2	0	0
CCLA property fund*	1,500	1,500	0	0
Total Financial Assets	4,306	4,231	25,571	24,858

The 2014/15 figures have been restated to include the effect of shared services.

*The Council invested £1.5m in the CCLA LAMIT Property Fund which is carried in the Balance Sheet at its fair value of £1.504m, the difference being posted to the Available For Sale Reserve.

c) Material Soft Loans Made by the Council – Housing Interest Free Loans

Loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. Loans to landlords are repayable after five years whilst owner-occupier loans are repayable when a property is sold.

Table 3

	2015/16 £'000	Restated 2014/15 £'000
Opening Carrying Amount of Soft Loans on 1 April	2,185	2,166
Nominal Value of new loans granted during the year	41	59
Loans repaid during the period	(64)	(81)

Notes to the Core Financial Statements

	2015/16 £'000	Restated 2014/15 £'000
Other movements	0	41
Closing Carrying Amount of Soft Loans at 31 March	2,162	2,185
Nominal Value at 31 March	2,123	2,187

The 2014/15 figures have been restated to match the categories shown above.

d) Gains and Losses on Financial Instruments

The gains and losses recognised in the CI&ES under Financing and Investment Income and Expenditure are as follows:

Table 4

	2015/16 £'000	2014/15 £'000
Financial Liabilities		
Interest costs	75	68
Financial Assets – Interest Income:		
Loans and receivables: fixed term deposits and call accounts	(112)	(80)
Available-for-sale: money market funds	(118)	(38)
Total Interest	(230)	(118)
Net (Gain) for the Year	(155)	(50)

e) Fair Value of Assets and Liabilities

Fair Value is defined in IAS 39 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

In the case of the Council's investments for 2015/16, these consisted of call accounts, short-term investments, money market funds and the CCLA Property Fund. None of the investments have been impaired (i.e. are at risk of default). Fair values in respect of impairment have therefore been assessed as being the same as the carrying amount on the Balance Sheet. To note:

- the Council currently has no long-term borrowings by way of loans;
- where an instrument matures within 12 months, the carrying value is assumed to be an approximation of fair value; and,
- the fair value of trade creditors/debtors is taken to be the invoiced or billed amount.

f) Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The Council's overall risk management programme takes account of the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out under policies approved by the Council in the annual Treasury Management Strategy.

The Treasury Management Strategy requires frequent review of interest rate exposure that feeds into the setting and monitoring of the annual budget. This allows any adverse changes to be accommodated. The analysis will also advise as to whether new borrowing taken out should be at fixed or variable rates. It is the aim of the Council to minimise interest paid on borrowing and maximise the interest earned on investments but, in the case of investments, protection of the capital sum must take precedence over the rate of return.

The Treasury Management Strategy can be obtained from the Council's website using the following link:
<http://www.swale.gov.uk/financial-strategies-documents/>.

The Council provides written principles for overall risk management as well as written policies within its Treasury Management Strategy covering the following risks and the investment of surplus cash balances:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Council;

Notes to the Core Financial Statements

- Liquidity Risk – the possibility that the Council might not have the funds available to meet its payment commitments; and,
- Market Risk – the possibility that a financial gain or loss might arise for the Council due to movements in interest rates, market prices, foreign currency exchange rates, etc. The Council's investment in the CCLA is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments of £1.5m. A 5% fall in commercial property prices would result in a £75,000 charge to Other Comprehensive Income & Expenditure – this would have no impact on the General Fund until the investment was sold.

Credit Risk

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments), and complies with the Prudential Code for Capital Finance in Local Authorities.

Credit risk arises from deposits with banks and financial institutions (counterparties), as well as credit exposure to the Council's customers. The Council protects the security of the cash it deposits with counterparties using a number of risk management techniques. Principal among these is the evaluation of counterparty risk, which uses a combination of credit ratings and limits on the term and maximum value of any deposits.

The Council seeks to reduce counterparty risk by adjusting the maximum amounts that may be invested with institutions. The details can be found in the Council's Treasury Management Strategy.

The table below summarises the Council's investment portfolio at 31 March 2016. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2016.

Table 5

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2016 £'000				Balance Invested at 31 March 2015 £'000
		Up to 1 month	Greater than 1 month and up to 3 months	Greater than 3 months	Total	
Svenska Handelsbanken*	Aa2	3,000			3,000	3,000
Santander Bank*	A1	3,000			3,000	3,000
Barclays Bank	A2				0	3,000
Lloyds Bank	A1				0	3,000
Standard Chartered Bank	A1	3,000			3,000	3,000
Nationwide Building Society	A1				0	3,000
HSBC Bank	Aa2	3,000			3,000	0
Debt Management Office (T-Bills)		5,989			5,989	0
Leeds Building Society	A2				0	1,000
Close Brothers	Aa3		1,000		1,000	0
BNP Paribas MMF*	Aaa-mf	3,000			3,000	1,500
Goldman Sachs MMF*	Aaa-mf				0	1,500
Morgan Stanley MMF*	Aaa-mf	376			376	300
Black Rock MMF*	Aaa-mf	3,000			3,000	0
CCLA Property Fund				1,504	1,504	1,418
Total		24,365	1,000	1,504	26,869	23,718

*These investments are cash and cash equivalents in the Balance Sheet. The rest are short-term investments, except for the CCLA Property Fund investment.

The ratings above are from Moody's credit rating agency. The long-term rating is the benchmark measure of probability of default. The default based on the experience gathered over the last five financial years is nil and the default adjusted for current market conditions is nil. Therefore, the estimated maximum exposure to default is nil as at 31 March 2016 (nil as at 31 March 2015).

A description of the grading is provided below:

Notes to the Core Financial Statements

- Aaa-mf – Money market funds rated Aaa-mf have very strong ability to meet the dual objectives of providing liquidity and preserving capital.
- Aa3, Aa2 – Investments rated Aa3 and Aa2 are judged to be of a high quality and are subject to very low credit risk.
- A1, A2 – Investments rated A1 and A2 are considered upper-medium grade and are subject to low credit risk.

The Council's Relationship With Other Organisations

45. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

Central Government

Central Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, providing funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, business rates, housing benefits). Unring-fenced grants received from Government departments are set out in the CI&ES and the total grants received from Government are shown in note 11.

Members and Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members allowances paid in 2015/16 is shown on note 9. During 2015/16, no works or services were commissioned from companies in which members had an interest. No grants were made to organisations whose senior management included close members of the families of members. The Council maintains a "Register of Members' Interests", which is open to public inspection at the Council offices during office hours.

There has been an approach to elected members and senior management seeking from them a declaration that neither they, nor close family nor anyone in the same household have been involved in any material transactions with the Council. Returns were received in respect of the 2015/16 financial year from all members and senior officers and there were no transactions considered of material significance to warrant separate disclosure in the Annual Accounts.

During 2015/16, no officers declared a pecuniary interest in accordance with section 117 of the Local Government Act 1972.

Entities Controlled or Significantly Influenced by the Council

Payment of a subsidy of £80,000 was made to Faversham Pool in 2015/16 (revenue grant of £80,000). The Trust is deemed to be influenced significantly by the Council through its representation on the Trust board.

It is our opinion that none of the above transactions have the ability to influence the Council's decisions or priorities. We have therefore considered these not to be material.

46. Group Accounts

The Code contains detailed requirements for the production of group accounts and a review was undertaken to identify any subsidiaries, associates, or joint ventures, which would establish whether a group relationship exists for the purposes of the Council's Statement of Accounts. Two interests were identified and details of these are set out below:

- Faversham Swimming Pool Management Committee (FSPMC) – the Council appoints the majority of the governing body to this entity and under the revised arrangements this then falls within the definition of a subsidiary. The FSPMC is a charitable trust, which operates a swimming pool complex for the benefit of

Notes to the Core Financial Statements

local residents, with a financial turnover of approximately £700,000 per annum. Included within this figure for 2015/16 is a grant of £80,000 from the Council to FSPMC. It is considered that both the value of the FSPMC turnover and the Council's grant is not material in comparison to the Council's net cost of services of £18.3m. The FSPMC accounts for 2015/16 are due to be approved in August 2016. The latest accounts of the Committee can be obtained from the Charity Commission as follows:

by post – the Charity Commission, P.O. Box 1227, Liverpool L69 3UG (telephone 0845 3000 218)

online – website www.charitycommission.gov.uk.

- Opportunities for Sittingbourne Ltd – is a company set up between the Council and Spirit of Sittingbourne LLP (Spirit of Sittingbourne being a venture between the Council and a number of local developers), with an overall aim of regenerating Sittingbourne Town Centre. The Council's interest in the entity has been assessed to be non-controlling but having a significant influence and so needs to be accounted for as an Associate. During 2014/15 the Council made a loan advance to Opportunities for Sittingbourne Ltd of £118,000 being half the purchase price of a property in the town centre. This payment was accounted for as capital expenditure within 2014/15 and will appear on the balance sheet within Long-Term Debtors and the corresponding entry in Deferred Capital Receipts. Opportunities for Sittingbourne Ltd was incorporated in January 2015 (No. 09400214). It is not required to submit accounts to Companies House until October 2016. Further information on the Company can be found on the Companies House website <https://www.gov.uk/government/organisations/companies-house>.

As at the end of 2015/16 the total investment in these two entities has been assessed as immaterial and the Council has decided that group accounts are not required.

Adjustments Between Accounting Basis and Funding Basis Under Regulations

These financial statements are based on accounting regulations, but there are changes required by law that affect what is eventually charged to the council tax payer. These are complex and are detailed below.

47. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total CI&ES recognised by the Council in the year in accordance with proper accounting practices, to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	2015/16 Usable Reserves			2015/16 Unusable Reserves £'000	2014/15 Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Adjustments to the Revenue Resources					
Pension costs transferred to/(from) the Pensions Reserve	(1,761)			1,761	1,590
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	11			(11)	(10)
Council tax and business rates (transfers to or from Collection Fund)	(878)			878	(12)
Holiday pay (transferred to/(from) the Accumulated Absences Reserve)	20			(20)	22
Capital Grants Received in year transferred to Capital Grants Unapplied	54		(54)	0	0
Reversal of entries in the (Surplus)/Deficit on the Provision of Services for capital expenditure	(5,599)			5,599	232
Total Adjustment to Revenue Resources	(8,153)		(54)	8,207	1,822
Adjustments Between Revenue and Capital Resources					
Transfer of cash sale proceeds from non-current assets to Capital Receipts Reserve (CRR)	357	(357)		0	0

Notes to the Core Financial Statements

	2015/16 Usable Reserves			2015/16 Unusable Reserves £'000	2014/15 Unusable Reserves £'000
	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000		
Statutory provision for the financing of capital investment	336			(336)	(369)
Capital expenditure charged to the General Fund	349			(349)	(421)
Total Adjustment between Revenue and Capital Resources	1,042	(357)	0	(685)	(790)
Adjustments to Capital Resources					
Use of the CRR to finance capital expenditure		127		(127)	(528)
Application of Capital Grants to finance capital expenditure	1,467		11	(1,478)	(1,270)
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CI&ES		14		(14)	7
Total Adjustment to Capital Resources	1,467	141	11	(1,619)	(1,791)
Total Adjustments	(5,644)	(216)	(43)	5,903	(759)

Collection Fund

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of Swale Borough Council in relation to the collection from taxpayers and distribution to local authorities and the Government of council tax and business rates. The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund, therefore, is to isolate the income and expenditure relating to council tax and business rates.

The amount credited to the General Fund under statute is the Council's precept or demand for the year, plus or minus the Council's share of the (surplus)/deficit on the Collection Fund for the previous year.

Surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies in the subsequent financial year in their respective proportions.

The council tax and business rate income included in the CI&ES is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. The Council collects council tax on behalf of the major precepting authorities – KCC, Kent Police and Crime Commissioner, Kent Fire and Rescue Service – and collects business rates on behalf of the Government, KCC and Kent Fire and Rescue Service. Parish precepts are paid from the Council's General Fund and are disclosed on the face of the CI&ES.

Collection Fund 2015/16	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	49	0	(65,753)	(65,753)
Business rates receivable	50	(45,837)	0	(45,837)
Total Income		(45,837)	(65,753)	(111,590)
Expenditure				
Precepts, demands and shares:				
Central Government		21,645	0	21,645
Swale Borough Council		17,316	7,785	25,101
Kent County Council		4,072	46,727	50,799
Kent Fire and Rescue Service		433	3,029	3,462

Notes to the Core Financial Statements

Collection Fund 2015/16	Note	Business Rates £'000	Council Tax £'000	Total £'000
Kent Police and Crime Commissioner		0	6,308	6,308
Kent County Council (Renewables share)		249	0	249
Sub total		43,715	63,849	107,564
Cost of collection		181	0	181
Transitional protection payments payable		145	0	145
Other transfers to General Fund		88	0	88
Debt write offs	51	1,335	423	1,758
Allowance for debt impairment	51	(1,569)	3	(1,566)
Charge to appeals provision	52	1,147	0	1,147
Allowance for appeals impairment	52	2,480	0	2,480
Sub total		3,807	426	4,233
Contribution towards previous year's Collection Fund surplus –				
Central Government		212	0	212
Swale Borough Council		170	176	346
Kent County Council		38	1,042	1,080
Kent Fire and Rescue Service		4	68	72
Kent Police and Crime Commissioner		0	141	141
Sub total		424	1,427	1,851
Total Expenditure		47,946	65,702	113,648
(Surplus)/Deficit Movement for the Year	48	2,109	(51)	2,058
(Surplus)/Deficit at 1 April 2015	48	492	(1,969)	(1,477)
(Surplus)/Deficit at 31 March 2016	48	2,601	(2,020)	581

Collection Fund 2014/15	Note	Business Rates £'000	Council Tax £'000	Total £'000
Income				
Council tax receivable	49	0	(63,200)	(63,200)
Business rates receivable	50	(46,356)	0	(46,356)
Transitional protection payments receivable		(6)	0	(6)
Total Income		(46,362)	(63,200)	(109,562)
Expenditure				
Precepts, demands and shares:				
Central Government		20,539	0	20,539
Swale Borough Council		16,432	7,554	23,986
Kent County Council		3,697	44,700	48,397
Kent Fire and Rescue Service		411	2,899	3,310
Kent Police and Crime Commissioner		0	6,035	6,035
Sub total		41,079	61,188	102,267
Cost of collection		181	0	181
Other transfers to General Fund		70	0	70
Debt write offs	51	192	223	415
Allowance for debt impairment	51	478	202	680
Charge to appeals provision	52	1,287	0	1,287
Allowance for appeals impairment	52	3,201	0	3,201
Sub total		5,409	425	5,834
Contribution towards previous year's Collection Fund surplus –				
Central Government		101	0	101
Swale Borough Council		81	97	178

Notes to the Core Financial Statements

Collection Fund 2014/15	Note	Business Rates £'000	Council Tax £'000	Total £'000
Kent County Council		18	576	594
Kent Fire and Rescue Service		2	37	39
Kent Police and Crime Commissioner		0	78	78
Sub total		202	788	990
Total Expenditure		46,690	62,401	109,091
(Surplus)/Deficit Movement for the Year	48	328	(799)	(471)
(Surplus)/Deficit at 1 April 2014	48	164	(1,170)	(1,006)
(Surplus)/Deficit at 31 March 2015	48	492	(1,969)	(1,477)

48. Collection Fund Surplus/Agency Arrangements

Swale Borough Council's element of the Collection Fund deficit is £793,000 as at 31 March 2016 (£46,000 surplus in 2014/15) and is shown in the Balance Sheet within the Collection Fund Adjustment Account (note 22). Amounts relating to precepting authorities and Government are shown in the Balance Sheet as a net debtor or creditor. This reflects that billing authorities are acting as agents of the precepting authorities and Government.

The following table shows the collection fund balance at 31 March 2016 split into its attributable parts:

	2015/16 Business Rates £'000	2015/16 Council Tax £'000	2015/16 Total £'000	2014/15 Total £'000
Central Government	1,301	0	1,301	246
Swale Borough Council	1,040	(247)	793	(46)
Kent County Council	234	(1,478)	(1,244)	(1,395)
Kent Fire and Rescue Service	26	(96)	(70)	(88)
Kent Police and Crime Commissioner	0	(199)	(199)	(194)
Balance at 31 March 2016	2,601	(2,020)	581	(1,477)

49. The Calculation of the Council Tax Base

The council tax is primarily a property based tax and is calculated for an average Band D property by dividing the net expenditure (to be met by the tax) of KCC, Kent Police and Crime Commissioner, Kent Fire and Rescue Service and Swale Borough Council by the tax base for Swale which is 42,869.49 (41,828.25 in 2014/15). This figure is the equivalent number of Band D properties in the area after allowing for the relative proportions payable by all other bands and the fact that some of those properties may pay a reduced amount because of discounts.

The basic council tax payable for each band in 2015/16 is listed below:

Band	Basic Tax £	Proportion of Band D Charge	Number of Band D Equivalent Dwellings
A	978.48	6/9	3,587.41
B	1,141.56	7/9	8,337.15
C	1,304.64	8/9	11,258.05
D	1,467.72	9/9	8,835.72
E	1,793.88	11/9	5,725.21
F	2,120.04	13/9	3,122.63
G	2,446.20	15/9	1,821.56
H	2,935.44	18/9	181.76
Total			42,869.49

The detail to the calculation of the council tax base can be found in the report to Council on 21 January 2015 by using the following link: <http://services.swale.gov.uk/meetings/ieListDocuments.aspx?CId=128&Mid=1289&Ver=4>

Additional amounts are payable for precepts levied by the Parish and Town Councils within the Borough.

Notes to the Core Financial Statements

The level of non-payment provided for in 2015/16 was 1.23% (1.05% in 2014/15). The original anticipated income = 42,869.49 x £1,489.12 (Band D plus average parish precept) = £63,837,815. The actual income was £65,753,050. The difference is attributable to an increase in the number of properties in the Borough, combined with a reduction in both Council Tax Support and empty property discounts.

50. Income Collectable from Business Ratepayers

The Council retains 40% of business rates collected during the year, after deductions for mandatory and discretionary reliefs, the cost of income collections including losses and for the cost of changes to rateable values resulting from appeals. The remaining amount is paid to the Government (50%), KCC (9%) and Kent Fire and Rescue Service (1%).

The business rate income after reliefs was £45,837,020 for 2015/16 (£46,361,680 for 2014/15). The reduction in 2015/16 over 2014/15 is attributable to an increase in business rate reliefs, a reduction in rateable values due to successful revaluation appeals for doctors' surgeries and the revaluation of a manufacturing site no longer trading.

The rateable value for the Council's area at the end of the financial year 2015/16 was £114,072,705 (£112,445,482 for 2014/15). The rate poundage set for 2015/16 was 49.3p (2014/15 was 48.2p). Small businesses have a lower rate poundage of 48.0p (2014/15 was 47.1p).

51. Debt Impairment

The following provisions have been made against the possible non-collection of Collection Fund debt:

	2015/16 Business Rates £'000	2014/15 Business Rates £'000	2015/16 Council Tax £'000	2014/15 Council Tax £'000
Balance brought forward 1 April	(2,398)	(1,920)	(1,414)	(1,212)
Less amounts written off	1,335	192	423	223
Decrease/(Increase) in provision	234	(670)	(426)	(425)
Balance at 31 March	(829)	(2,398)	(1,417)	(1,414)
Swale Borough Council's proportion	(332)	(959)	(169)	(172)

Council tax bad debt provision is based on an analysis of the age of the debt and their recovery stage. At 31 March 2016, the total council tax outstanding debt was £4.3m (£4.5m in 2014/15) of which debt one year old was £1.8m, debt between two to five years old was £2.0m and debt over five years old was £0.5m.

The provision for business rate debt is based on an assessment of each debt in respect of each financial year since 2003/04. The bad debt provision takes into account the recovery action, receivership/administration arrangements and potential absconders. At 31 March 2016, the total business rates outstanding debt was £1.1m (£2.7m in 2014/15) of which debt one year old was £0.5m, debt between two to five years old was £0.5m and debt over five years old was £0.1m. The high level of amounts written off in 2015/16, were as a result of a major manufacturing site no longer trading. These losses had been fully provided for in previous years.

52. Provision for Business Rate Valuation Appeals

	2015/16 Business Rates £'000	2014/15 Business Rates £'000
Balance brought forward 1 April	(5,615)	(2,414)
Less amounts charged to appeals	1,147	1,287
(Increase) in provision	(3,628)	(4,488)
Balance at 31 March	(8,096)	(5,615)
Swale Borough Council's proportion	(3,238)	(2,246)

This provision is based on the latest ratings list of outstanding appeals provided by the Valuation Office.

The Council has received applications for mandatory relief from business rates on behalf of NHS Trusts, but it considers the basis of these applications to be unfounded and has made no allowance for them in its accounts.

Glossary

Accounting Policies	Accounting policies define the process whereby transactions and other events are reflected in financial statements.
Accruals	The inclusion of outstanding debtors and creditors in the year's income, expenditure and capital expenditure.
Asset	An item having value measurable in monetary terms. A non-current asset has use and value for more than one year; a current asset can readily be converted into cash.
Balance Sheet	A summary of all the assets, liabilities, funds, reserves, etc. of the Council.
Service Reporting Code Of Practice (SeRCOP)	This provides guidance on the content and presentation of the costs of services.
Billing Council	A local council charged by statute with the responsibility for the collection of and accounting for council tax, business rates and residual community charge. Swale Borough Council is a billing council.
Budget	The Council's aims and policies set out in financial terms against which performance is measured. Both capital and revenue budgets are prepared.
Capital Expenditure	Expenditure on the acquisition of a non-current asset or expenditure, which adds to and not merely maintains the value of an existing non-current asset.
Capital Financing	The raising of money to pay for capital expenditure, including borrowing, revenue financing, usable capital receipts, capital grants and capital contributions.
Capital Receipts	The proceeds of the sale of capital assets.
Cash & Cash Equivalents	The most liquid assets found within the asset portion of the Balance Sheet.
Code of Practice on Local Council Accounting in the UK 2015/16 (The Code)	This specifies the principles and practices of accounting required to prepare a Statement of Accounts which presents "a true and fair view" of the financial position and transactions of the Council.
Collection Fund	A separate fund maintained by a billing council which records the expenditure and income relating to council tax and business rates.
Community Assets	Non-current assets that the local council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal.
Comprehensive Income & Expenditure Statement	This records all the income the Council has received to fund the day-to-day expenditure on the services it has provided during the financial year.
Council Tax	A local tax set by local authorities in order to finance their budget requirement.
Creditor	Amounts owed by the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been made by the end of that accounting period.
Debtor	Amounts due to the Council for works done, goods received or services rendered before the end of the accounting period but for which payments have not been received by the end of that accounting period.
Depreciation	The measure of the cost or revalued amount of the benefits of the non-current assets that have been consumed during the period.
Estimation Techniques	The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.
Fair Value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance Lease	A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee.
General Fund	This is the main reserve account for the Council.
Government Grants	Assistance by Government and inter-government agencies and similar bodies, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.
Impairment	A reduction in the value of an asset below its carrying amount on the Balance Sheet.

Glossary

Income	Monies received or due from rents, fees and charges for services, specific grants and investment interest.
Infrastructure Assets	Non-current assets whose life is of indefinite length and which are not usually capable of being sold, such as highways and footpaths.
Intangible Assets	These are non-financial assets that do not have physical substance but are identifiable and controlled by the Council through custom legal rights (e.g. software).
International Financial Reporting Standards	Guidelines and rules set by the International Accounting Standards Board (IASB) that companies and organisations can follow when compiling financial statements.
Investment Properties	Interest in land and/or buildings in respect of which construction work and development have been completed; and, which is held for its investment potential, with any rental income being negotiated at arm's length.
Liabilities	Amounts which will become payable by the Council in the short or long-term.
Materiality	A threshold quality ensuring that information is of such significance as to justify its inclusion in the Statement.
Net Expenditure	Gross expenditure for a service less directly related income.
Non-Operational Assets	Non-current assets held by a local council but not used or consumed in the delivery of services or for the service or strategic objective of the Council.
Operating Lease	A lease where the ownership of the long-term asset remains with the lessor.
Operational Assets	Non-current assets held and occupied, used or consumed by the local council in the direct delivery of those services for which it has either a statutory or a discretionary responsibility or for the service or strategic objectives of the Council.
Outturn	The actual results for the financial year in question.
Precept	The levy made by those authorities which do not run the local taxation system, e.g. county councils, on those authorities which do so, e.g. districts, requiring them to collect the required income from local taxpayers on their behalf.
Property, Plant, Furniture and Equipment	An asset that is vital to business operations but cannot be easily liquidated. The value is depreciated over the estimated life of the asset as even the longest-term assets become obsolete or useless after a period of time.
Provision	An amount set aside for liabilities or losses that are certain to arise but owing to their inherent nature cannot be quantified with any certainty.
Recharge	An internal charge made by one service in respect of services provided for another.
Reserves	The accumulation of surpluses and deficits over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Council.
Revenue Expenditure Funded From Capital Under Statute (REFCUS)	Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in a non-current asset on the Balance Sheet. Such expenditure is charged to the Comprehensive Income & Expenditure Statement.
Soft Loans	Loans made below prevailing interest rates and which include loans made to organisations that undertake activities that the Council considers benefit the local population.
Useful Economic Life	The period over which the Council derives benefits from the use of a non-current asset.

Acronyms Used:

CCLA	Church Charities and Local Authorities
CFO	Chief Financial Officer
CI&ES	Comprehensive Income & Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CRR	Capital Receipts Reserve

DFG	Disabled Facilities Grant
FSPMC	Faversham Swimming Pool Management Committee
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
KCC	Kent County Council

Glossary

LAMIT	Local Authorities' Mutual Investment Trust
LGPS	Local Government Pension Scheme
MKIP	Mid Kent Improvement Partnership
MMF	Money Market Funds
NI	National Indicator
PPE	Property Plant and Equipment

REFCUS	Revenue Expenditure Funded from Capital Under Statute
RICS	Royal Institution of Chartered Surveyors
RPI	Retail Price Index
S106	Section 106 - See note 36
SeRCOP	Service Reporting Code of Practice
SMT	Strategic Management Team

Audit Committee Meeting	
Meeting Date	14 September 2016
Report Title	External Auditor Appointment
Cabinet Member	Cllr Dewar-Whalley, Cabinet Member for Finance and Performance
SMT Lead	Mark Radford, Corporate Services Director
Head of Service	Nick Vickers, Head of Finance
Lead Officer	Nick Vickers, Head of Finance
Key Decision	No
Classification	Open
Forward Plan	Reference number:
Recommendations	1. To delegate the final decision on a recommendation to Council on the preferred option to the Corporate Services Director in consultation with the Chairman, Audit Committee and the Cabinet Member for Finance and Performance.

1 Purpose of Report and Executive Summary

- 1.1 This report provides an update on the latest position on the procurement of the external auditor, and follows on from the report to the Committee on 8 June. The Committee at that time was supportive of the sector-led approach.

2 Background

- 2.1 In the 8 June report a number of alternative approaches were identified:
- establish our own Audit Panel;
 - join with other Councils to set up a joint Audit Panel; or
 - work with a sector-led body.
- 2.2 The view remains that the largest savings are likely from a sector-led approach, and setting up a totally independent Audit Panel for this task only seems a complex and costly approach.
- 2.3 Since the June meeting DCLG authorised Public Sector Audit Appointments Ltd (PSAA – a wholly owned LGA company) to act as a ‘specified person’ to procure external auditors on behalf of authorities. PSAA have published a prospectus (Appendix I) setting out their intentions for the procurement exercise.

- 2.4 With advice from the Head of Audit Partnership, we understand that the timescales for opting for the sector-led approach PSAA will be to formally invite Councils to join PSAA in late September 2016.
- 2.5 Under the regulations, Councils have a minimum of eight weeks to accept the invitation, although the regulations imply (but do not state) PSAA could lengthen this period at their discretion.
- 2.6 So, assuming an offer on 30 September and the legal minimum acceptance window, there would need to be a Full Council decision to accept on or before 18 November.

3 Proposals

- 3.1 With this Committee not meeting again until 30 November the Committee is requested to agree a delegation to the Corporate Services Director, in consultation with the Chairman and the Cabinet Member for Finance & Performance, on the recommendation to be made to Council.
- 3.2 All members of the Committee will of course have the opportunity to contribute to the discussion and decision at the Council meeting.

4 Alternative Options

- 4.1 The Committee has already had the opportunity to consider the range of options available.

5 Consultation Undertaken or Proposed

- 5.1 The last indication from discussions at the Kent Finance Officers Group was that there was a consensus that the sector-led approach was the preferred route forward. There will be a further discussion at KFOs on 16 September.

6 Implications

Issue	Implications
Corporate Plan	Supports the objective of being a “Council to be proud of”
Financial, Resource and Property	The external auditor provides external certification of the Council’s accounts, and makes a judgement on the value for money being achieved.
Legal and Statutory	External audit is a statutory requirement under the Accounts and Audit Regulations.
Crime and Disorder	Not applicable

Sustainability	Not applicable
Health and Wellbeing	Not applicable
Risk Management and Health and Safety	The external auditor will examine the Council's approach to risk management as part of their consideration on the operation on internal controls.
Equality and Diversity	Not applicable

7 Appendices

7.1 The following documents are to be published with this report and form part of the report:

- Appendix I: PSAA briefing paper

8 Background Papers

Report to Audit Committee 8 June 2016:

<http://services.swale.gov.uk/meetings/documents/s5486/Auditor%20appointment.pdf>

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Developing the option of a national scheme for local auditor appointments

www.psa.co.uk

“The LGA has worked hard to secure the option for local government to appoint auditors through a dedicated sector-led national procurement body. I am sure that this will deliver significant financial benefits to those who opt in.”

– Lord Porter CBE, Chairman,
Local Government Association

Over the next few months all principal authorities will need to decide how their auditors will be appointed in the future. They may make the appointment themselves, or in conjunction with other bodies. Or they can take advantage of a national collective scheme which is designed to offer them a further choice. Choosing the national scheme should pay dividends in quality, in cost, in responsiveness and in convenience.

Public Sector Audit Appointments Ltd (PSAA) is leading the development of this national option. PSAA is a not-for-profit company which already administers the current audit contracts. It aims to be designated by the Department for Communities & Local Government (DCLG) to operate a collective scheme for auditor appointments for principal authorities (other than NHS bodies) in England. It is currently designing the scheme to reflect the sector's needs and views.

The Local Government Association (LGA) is strongly supportive of this ambition, and 200+ authorities have already signalled their positive interest. This is an opportunity for local government, fire, police and other bodies to act in their own and their communities' best interests.

We hope you will be interested in the national scheme and its development. We would be happy to engage with you to hear your views – please contact us at generalenquiries@psaa.co.uk

You will also find some questions at the end of this booklet which cover areas in which we would particularly welcome your feedback.

Audit does matter

High quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

Imminent changes to the arrangements for appointing the auditors of local public bodies are therefore very important. Following the abolition of the Audit Commission, local bodies will soon begin to make their own decisions about how and by whom their auditors are appointed. A list of the local government bodies affected can be found at the end of this booklet.

The Local Government Association (LGA) has played a leadership role in anticipating these changes and influencing the range of options available to local bodies. In particular, it has lobbied to ensure that, irrespective of size, scale, responsibilities or location, principal local government bodies can, if they wish, subscribe to a specially authorised national scheme which will take full responsibility for local auditor appointments which offer a high quality professional service and value for money.

The LGA is supporting PSAA in its application to the Department for Communities & Local Government (DCLG) to be appointed to deliver and manage this scheme.

PSAA is well placed to award and manage audit contracts, and appoint local auditors under a national scheme

PSAA is an independent, not-for-profit company limited by guarantee and established by the LGA. It already carries out a number of functions in relation to auditor appointments under powers delegated by the Secretary of State for Communities & Local Government. However, those powers are time-limited and will cease when current contracts with audit firms expire with the completion of the 2017/18 audits for local government bodies, and the completion of the 2016/17 audits for NHS bodies and smaller bodies.

The expiry of contracts will also mark the end of the current mandatory regime for auditor appointments. Thereafter, local bodies will exercise choice about whether they opt in to the authorised national scheme, or whether they make other arrangements to appoint their own auditors.

PSAA wishes to be selected to be the trusted operator of the national scheme, formally specified to undertake this important role by the Secretary of State. The company is staffed by a team with significant experience in appointing auditors, managing contracts with audit firms and setting and determining audit fees. We intend to put in place an advisory group, drawn from the sector, to give us ready access to your views on the design and operation of the scheme. We are confident that we can create a scheme which delivers quality-assured audit services to every participating local body at a price which represents outstanding value for money.

“Many district councils will be very aware of the resource implications of making their own appointment. Joining a well-designed national scheme has significant attractions.”

– Norma Atlay, President,
Society of District Council Treasurers

“Police bodies have expressed very strong interest in a national scheme led by PSAA. Appointing the same auditor to both the PCC and the Chief Constable in any area must be the best way to maximise efficiency.”

– Sean Nolan, President,
Police and Crime Commissioners
Treasurers’ Society (PACCTS)

The national scheme can work for you

We believe that the national scheme can be an excellent option for all local bodies. Early indications are that many bodies agree - in a recent LGA survey more than 200 have expressed an interest in joining the scheme.

We plan to run the scheme in a way that will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. The scheme will take away those headaches and, assuming a high level of participation, be able to attract the best audit suppliers and command highly competitive prices.

The scope of public audit is wider than for private sector organisations. For example, it involves forming a conclusion on the body’s arrangements for securing value for money, dealing with electors’ enquiries and objections, and in some circumstances issuing public interest reports. PSAA will ensure that the auditors which it appoints are the most competent to carry out these functions.

Auditors must be independent of the bodies they audit, to enable them to them to carry out their work with objectivity and credibility, and in a way that commands public confidence. PSAA plans to take great care to ensure that every auditor appointment passes this test. It will also monitor any significant proposals, above an agreed threshold, for auditors to carry out consultancy or other non-audit work to ensure that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditors to bodies which are involved in formal collaboration/joint working initiatives or within combined authority areas, if the parties consider that a common auditor will enhance efficiency and value for money.

PSAA will ensure high quality audits

We will only contract with firms which have a proven track record in undertaking public audit work. In accordance with the 2014 Act, firms must be registered with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC). Current indications are that fewer than ten large firms will register meaning that small local firms will not be eligible to be appointed to local public audit roles.

PSAA will ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any concerns are detected at an early stage and addressed effectively in the new regime. The company will take a close interest in feedback from audited bodies and in the rigour and effectiveness of firms' own quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. We will liaise with the National Audit Office (NAO) to help ensure that guidance to auditors is updated when necessary.

We will include obligations in relation to maintaining and continuously improving quality in our contract terms and quality criteria in our tender evaluation method.

PSAA will secure highly competitive prices

A top priority must be to seek to obtain the best possible prices for local audit services. PSAA's objective will be to make independent auditor appointments at the most competitive aggregate rate achievable.

Our current thinking is that the best prices will be obtained by letting three year contracts, with an option to extend to five years, to a relatively small number of appropriately registered firms in two or three large contract areas nationally. The value of each contract will depend on the prices bid, with the firms offering the best prices being awarded larger amounts of work. By having contracts with a number of firms we will be able to ensure independence and avoid dominance of the market by one or two firms.

Correspondingly, at this stage our thinking is to invite bodies to opt into the scheme for an initial term of three to five years, subject, of course, to the terms of specification by DCLG.

The procurement strategy will need to prioritise the importance of demonstrably independent appointments, in terms of both the audit firm appointed to each audited body and the procurement and appointment processes used. This will require specific safeguards in the design of the procurement and appointment arrangements.

“Early audit planning is a vital element of a timely audit. We need the auditors to be available and ready to go right away at the critical points in the final accounts process.”

– Steven Mair, City Treasurer,
Westminster City Council

“In forming a view on VFM arrangements it is essential that auditors have an awareness of the significant challenges and changes which the service is grappling with.”

– Charles Kerr, Chair,
Fire Finance Network

PSAA will establish a fair scale of fees

Audit fees must ultimately be met by individual audited bodies. PSAA will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising PSAA's own costs. The changes to our role and functions will enable us to run the new scheme with a smaller team of staff. PSAA is a not-for-profit company and any surplus funds will be returned to scheme members.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk. Pooling means that everyone within the scheme will benefit from the most competitive prices. Current scale fees are set on this basis. Responses from audited bodies to recent fee consultations have been positive.

PSAA will continue to consult bodies in connection with any proposals to establish or vary the scale of fees. However, we will not be able to consult on our proposed scale of fees until the initial major procurement has been completed and contracts with audit firms have been let. Fees will also reflect the number of scheme participants - the greater the level of participation, the better the value represented by our scale of fees. We will be looking for principal bodies to give firm commitments to join the scheme during Autumn 2016.

The scheme offers multiple benefits for participating bodies

We believe that PSAA can deliver a national scheme which offers multiple benefits to the bodies which take up the opportunity to collaborate across the sector by opting into scheme membership.

Benefits include:

- assured appointment of a qualified, registered, independent auditor
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives or combined authorities, if the parties believe that it will enhance efficiency and value for money
- on-going management of independence issues
- securing highly competitive prices from audit firms
- minimising scheme overhead costs
- savings from one major procurement as opposed to a multiplicity of small procurements
- distribution of surpluses to participating bodies
- a scale of fees which reflects size, complexity and audit risk
- a strong focus on audit quality to help develop and maintain the market for the sector
- avoiding the necessity for individual bodies to establish an auditor panel and to undertake an auditor procurement
- enabling time and resources to be deployed on other pressing priorities
- setting the benchmark standard for audit arrangements for the whole of the sector

We understand the balance required between ensuring independence and being responsive, and will continually engage with stakeholders to ensure we achieve it.

How can you help?

We are keen to receive feedback from local bodies concerning our plans for the future. Please let us have your views and let us know if a national scheme operated by PSAA would be right for your organisation.

In particular we would welcome your views on the following questions:

1. Is PSAA right to place emphasis on both quality and price as the essential pre-requisites for successful auditor appointments?
2. Is three to five years an appropriate term for initial contracts and for bodies to sign up to scheme membership?
3. Are PSAA's plans for a scale of fees which pools scheme costs and reflects size, complexity and audit risk appropriate? Are there any alternative approaches which would be likely to command the support of the sector?
4. Are the benefits of joining the national scheme, as outlined here, sufficiently attractive? Which specific benefits are most valuable to local bodies? Are there others you would like included?
5. What are the key issues which will influence your decisions about scheme membership?
6. What is the best way of us continuing our engagement with you on these issues?

Please reply to: generalenquiries@psaa.co.uk

The following bodies will be eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils in England
- district councils
- London borough councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area in England
- chief constables for an area in England
- national park authorities for a national park in England
- conservation boards
- fire and rescue authorities in England
- waste authorities
- the Greater London Authority and its functional bodies.

BOARD MEMBERS

Steve Freer (Chairman), former Chief Executive CIPFA

Caroline Gardner, Auditor General Scotland

Clive Grace, former Deputy Auditor General Wales

Stephen Sellers, Solicitor, Gowling WLG (UK) LLP

CHIEF OFFICER

Jon Hayes, former Audit Commission Associate Controller

“Maintaining audit quality is critically important. We need experienced audit teams who really understand our issues.”

– Andrew Burns, Director of Finance and Resources,
Staffordshire County Council

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Public Sector
Audit Appointments

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SWALE BOROUGH COUNCIL

AUDIT COMMITTEE

Draft Work Programme

2016/17



Statement of Purpose:

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process, including approval of the annual statement of accounts.

Audit Committee Members:

	<p>Chairman: Councillor Nicholas Hampshire Party: Conservative Ward: Borden and Grove Park Phone: 01795 477560 (evening only), 07739 108756 (daytime) Email: nicholashampshire@hotmail.com</p>		<p>Vice- Chairman Councillor Nigel Kay Party: Conservative Ward: St Ann's Phone: 01795 531298/07710 487129 Email: nigelkay@swale.gov.uk</p>
	<p>Councillor Andy Booth Party: Conservative Ward: Minster Cliffs Phone: 07912 464213 Email: andybooth@swale.gov.uk</p>		<p>Councillor Roger Clark Party: Conservative Ward: Milton Regis Phone: 07960 381095 Email: clark.miltonregis@gmail.com</p>
	<p>Councillor Adrian Crowther Party: UKIP Ward: Minster Cliffs Phone: 01795 874418 Email: Adrian.crowther@kent.gov.uk</p>		<p>Councillor Mick Galvin Party: UKIP Ward: Sheerness Phone: 01795 666903 Email: mickgalvin@swale.gov.uk</p>

	<p>Councillor Angela Harrison Party: Labour Ward: Sheerness Phone: 01795 665029 Email: angelaharrison@swale.gov.uk</p>		<p>Councillor Samuel Koffie-Williams Party: Conservative Ward: Murston Phone: 07484274235 Email: samuelkwilliams@swale.gov.uk</p>
	<p>Councillor Peter Marchington Party: Conservative Ward: Queenborough and Halfway Phone: 01795 661960 (evenings only) Email: petermarchington@hotmail.co.uk</p>		

Audit Committee Terms of Reference

1. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
3. Be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Internal Audit
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
10. Approve the Annual Statement of Accounts.
11. Present an annual report to the Executive on exceptions and highlights throughout the year.

Work Programme:

Date of Meeting	Title of Report	Key Officer Contact
<i>8 June 2016</i>	Internal Audit Annual Report 2015/16	Rich Clarke
	Annual Governance Statement	Nick Vickers
	Audit Committee Annual Report	Rich Clarke
	Fee Letter 2016/17	External Audit
	Future Appointment of External Auditors	Nick Vickers
	2015/16 Audit Plan – External Audit	External Audit
	Audit Committee Work Programme 2016/17	Democratic Services
<i>14 September 2016</i>	Annual Financial Report 2015/16 and Audit Findings Report	Nick Vickers
	Annual Treasury Management Report 2015/16	Nick Vickers
	External Auditor Appointment	Nick Vickers
	Audit Committee Work Programme	Democratic Services
<i>30 November 2016</i>	Treasury Management Half Year Review	Nick Vickers
	Annual Audit Letter	External Audit
	Audit Committee Update	External Audit
	Internal Audit Interim Report	Rich Clarke

	Audit Committee Work Programme	Democratic Services
<i>8 March 2017</i>	Internal Audit Plan 2016/17	Rich Clarke
	Strategic Risk Register and Action Plans	Rich Clarke
	Certification of Claims and Returns	External Audit
	Audit Committee Work Programme	Democratic Services

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